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PLANNING AND PLAN IMPLEMENTATION

USE OF INVENTORY BALANCE IN ECONOMIC PLANNING URGED

Moscow VESTNIK STATISTIKI in Russian No 12, Dec 79 pp 15-21

[Article by V. Vesbland: "Procedural Questions of Working Out the Report Intersectorial Inventory Balance in the National Economy"]

[Text] An important condition for improving the efficiency of social production is the achieving of an economically sound balancing of the volume and structure of inventories with the needs of the national economy. On a national economic scale, the value of inventories reaches significant amounts. According to data at the end of 1977, the total value of working capital in material and commodity inventories was 269.3 billion rubles (not counting the working capital of kolkhozes),¹ and the designated amount is growing year by year.

The Decree of the CPSU Central Committee and the USSR Council of Ministers "On Improving Planning and Strengthening the Effect of the Economic Mechanism on Improving Production Efficiency and Work Quality" raises the task of improving the level of planning and management in accord with the requirements of the present stage of economic development, the stage of developed socialism. Along with these problems, the decree draws attention to the necessity of ensuring the rational use of productive capital, the material, labor and financial resources, and strengthening savings.

In this regard, it is essential to further improve the existing methods of analyzing and planning inventories considering the dynamic nature of the economic processes, the significant broadening of the scale of production, the complicating of intersectorial ties and the increased demands placed upon the level of national economic balancing. In this regard, in our opinion, most promising are the statistical balance methods and, in particular, the method of the intersectorial balance. The latter has acquired a firm place in the theory and practice of the statistical national economic balance. For example, the report intersectorial balances which are worked

¹See: "Narodnoye Khozyaystvo SSSR v 1978 g." [The USSR National Economy in 1978], Moscow, Statistika, 1978, p 521.

out for product production and distribution have become widely known. At present the USSR TsSU [Central Statistical Administration] has compiled such a balance for the 1977 data.

The state of inventories in the national economy has been represented in the designated balances only in the form of the accumulation (increase or reduction) of enterprise working capital differentiated according to groups of uniform product in accord with the range of the "pure" sectors of the intersectorial balance. Such a principle for showing inventories in the intersectorial balance is related to the particular features of its scheme constructed in terms of the schemes of the reproduction of gross social product, and as a whole meets the tasks solved by this balance.

At the same time, for carrying out a number of analytical planning studies, it would be important to obtain a description of the actual availability of material and commodity stocks in an intersectorial breakdown, as this would make it possible to determine the inventory structure in terms of the sectors and product types, and with balanced volumes of the production and use of the gross product in an intersectorial breakdown, to calculate differentiated coefficients for its inventory intensiveness, that is, the level of inventories calculated per unit of product. This problem could be partially solved by incorporating in the balance for product production and distribution a balanced vector line for the average actual availability of working capital differentiated in terms of the range of the sectors of the intersectorial balance. This would make it possible to determine the aggregate inventory intensiveness of the product in each sector. The elaboration of such a vector line does not present any special difficulties.

However the state of inventories in the national economy on an intersectorial breakdown can be analyzed solely on the basis of working out an intersectorial inventory balance within the system of the statistical national economic balance. This inventory balance should be constructed on the same theoretical and procedural principles as the intersectorial balance of social product.

The basic indicator for the intersectorial inventory balance is the actual availability of material working capital in terms of product types in the "pure" national economic sectors and industry (in average annual terms). The material working capital indicated in this balance includes all those elements which have been incorporated in the corresponding indicators for the accumulation of working capital in the intersectorial balance of social product, namely, the average annual amounts of production inventories, incomplete production, finished products and goods, incomplete construction, incomplete major overhauls, as well as the stocks of agricultural products on the farms of the producers.

The report intersectorial inventory balance is an economic table (see the diagram) the lines of which provide a breakdown of the average annual commodity and material inventories in terms of product types, while the columns show in what national economic sectors and industry the inventories

function. Both the product as well as the sectorial inventory breakdowns correspond to the range of the "pure" sectors accepted by the USSR TsSU for working out the intersectorial balances.

Within the subject of the scheme for the report intersectorial inventory balance, there are isolated industrial products (by types), agricultural products, as well as the products of the other sectors of material production. In addition, here are isolated incomplete production and own-produced semifinished products in construction, and incomplete major overhauls. As the final line of the intersectorial balance as the subject the total inventories in each sector are broken down in terms of working capital items including production inventories, incomplete production and construction, and finished products and commodities. The predicate in the scheme of the intersectorial inventory balance encompasses all sectors of material production and the nonproduction sphere.

In terms of their economic content, the indicators of the designated balance given at the intersection of the corresponding lines and columns are the average annual amounts of working capital in commodity and material inventories. Here it is essential to note one of the particular features of the scheme of the balance, that is, the indicators located on the intersection of the lines and columns of the same name represent, as a rule, the conglomerate of production inventories, incomplete production and finished products, while the remaining indicators basically characterize the average annual availability of production inventories. An exception should be made for the sectors of the distribution sphere including trade, agricultural procurements, material and technical supply and freight transport, where the given type of product can be related not only to production inventories but also to commodity inventories. For example, on the intersection of the line "Ferrous Metals" with the column of the same name there is shown the total material working capital in production inventories of ferrous metals in ferrous metallurgy, in the incomplete production of ferrous metals and in the inventories of ferrous metals representing the finished products of this sector. The intersection of the line "Ferrous Metals" with the column "Hardware" can show only the material working capital representing the production inventories of ferrous metals in the industrial sectors where hardware is produced. The intersection of the line "Ferrous Metals" with the column "Material and Technical Supply" shows the inventories of ferrous metals basically in the form of commodity stocks at the supply and marketing organizations, as well as in the form of production inventories related to current expenditures in this sector. The given distribution of indicators in the table of the intersectorial inventory balance facilitates the analysis of the state of commodity and material inventories in the national economy, and makes it possible to coordinate these indicators with the classification of normed working capital used in accountancy.

The results of the columns of the designated intersectorial balance express the general average annual inventory totals for all types of product in the given sector, while the results of the lines give the total inventories of the given type of product in the national economic and industrial sectors.

Scheme of Report Intersectorial Inventory Balance in the National Economy

National economic and industrial sectors	Ferrous metal ores & non-metallic raw products for ferrous metallurgy	Ferrous metals	Coking byproducts	Refractories	Etc.	Industry, total	Agriculture, including forestry	Freight transport	Communications serving production	Trade and public dining	Procurement	Material-technical supply and marketing	Other sectors of material production	Total in sectors of material production	Sectors of nonproduction sphere	Total
Material working capital (average annual availability)	Ferrous metal ores & nonmetallic raw prods. for ferrous metallurgy															
	Ferrous metals															
	Coking byproducts															
	Refractories															
	Etc.															
	Industry, total															
	Agricultural products (including forestry)															
	Incomplete production & own-made semifinished products in construction															
	Incomplete major overhauls															
	Products of other sectors of material production															
	Total															
	Incl.: Prod. inventories															
	Incomplete prod. & const.															
	Finished prods. & goods															

For this reason, in contrast to the intersectorial balance for the production and distribution of product, the intersectorial inventory balance does not require balancing for each sector. The results of the lines and columns of the same name do not necessarily have to be equal, as they have a different economic content as we have already pointed out. An exception in this regard is the final line and the final column the intersection of which shows the total available material working assets in the national economy.

The elaboration of the intersectorial inventory balance requires the solving of a number of procedural questions related mainly to the problem of obtaining the necessary statistical information. The indicators of financial statistics concerning the available commodity and material inventories do not make it possible to obtain their structure broken down for the products and the sectors in accord with the range of the "pure" sectors of the intersectorial balance. In section "B" ("Normed Working Capital") for the assets of the bookkeeping balance of an industrial enterprise, working capital is grouped, as is known, by items in terms of the place of one or another type of inventory in the production process, that is, production inventories (raw products, basic materials, auxiliary materials, fuel and so forth), incomplete production, finished products, commodities, and so forth. The data of financial statistics dealing with the available working capital in industry are worked out on the basis of the designated bookkeeping reporting. An analogous situation also exists in the financial statistics of the other sectors.

For breaking down the indicators for material working capital for the sectors of the intersectorial balance, it is advisable to use the data of one-shot surveys of the enterprises as conducted by the state statistical bodies for compiling the report intersectorial balances of product production and distribution. As is known, the program of these surveys provides for the obtaining of data on the commodity and material inventories according to a more detailed breakdown in comparison with that used in accountancy. For example, the industrial enterprises show in the survey blanks the available production inventories, incomplete production and finished products as of the beginning and end of the year according to the data of the bookkeeping balance. Here the production inventories include the balances of raw products, basic and auxiliary materials, fuel, crating, spare parts at the warehouse and inexpensive and rapidly wearing out supplies at the warehouse and in operation broken down in terms of groups of materials corresponding to the range of the sectors in the intersectorial balance. The balances of finished product are also broken down.

The full use of the data from financial statistics for the designated one-shot surveys as well as various operational data on material-technical supply, trade, procurement and so forth makes it possible to determine the final line of the intersectorial inventory balance, to break down these totals in terms of product types in accord with the range of the "pure" sectors, and to obtain indicators for filling out the columns of the balance.

The table obtained as a result of the proposed calculations for the intersectorial inventory balance makes it possible to provide a systematized description of the material and physical composition of the inventories in a detailed sectorial breakdown. The matrix form of this balance provides for the introduction of the software used for the computer calculation of the intersectorial ties.

On the basis of the data of the intersectorial inventory balance and the intersectorial social product balance, it is possible to obtain coefficients for the direct and full inventory intensiveness of the gross product. These coefficients indicate with what average annual amount of inventories of type i functioning in sector j the given volume of gross product of sector j has been obtained (the direct inventory intensiveness) and with what volume of inventories of type i functioning both in sector j and in the other sectors indirectly related to the production of the product of sector j , the given volume of gross product of sector j has been obtained (full inventory intensiveness).

The coefficients for direct inventory intensiveness are calculated by the formula:

$$K_{diij}^S = \frac{F_{ij}}{x_j},$$

where K_{di}^S --the coefficient for the direct inventory intensiveness of the gross product of sector j calculated for type i of the material working capital functioning in sector j ;

F_{ij} --the average annual total of material working capital of type i functioning in sector j ;

x_j --the volume of gross product of sector j .

On the basis of the matrix for the coefficients of the direct inventory intensiveness of gross product calculated as the ratio of the average annual total of material working assets to the volume of gross product, the matrix is determined for the coefficients of the full inventory intensiveness using the formula:

$$K_{fu}^S = K_{di}^S (E - A)^{-1},$$

where K_{fu}^S --the matrix for the coefficients of full inventory intensiveness of the gross product;

K_{di}^S --the matrix for the coefficients of direct inventory intensiveness of the gross product;

$(E - A)^{-1}$ --matrix for the coefficients of the full expenditures of the subjects of labor.

The coefficients for the direct and full inventory intensiveness of the gross product can be calculated for all the sectors of material production isolated in the intersectorial inventory balance, both in terms of the total material working capital in each sector and in terms of the individual types of inventories in accord with their differentiation by material and physical composition, as well as by the working capital items: production

inventories, incomplete production and construction, finished product and commodities. The compiling of the intersectorial inventory balance and the calculation of it on the basis of the coefficients for direct and full inventory intensiveness of the gross product figured for the actual average annual availability of material working capital provides an opportunity to determine with what level of the given type of inventories the product has been obtained in the given sector. The importance of the calculations of the coefficients of direct and full inventory intensiveness consists, first of all, in the possibility of systematizing and analyzing the actual proportional indicators for commodity and material inventories for the purpose of releasing working capital and putting means of production in inventories into economic circulation. Suffice it to say that at present the inventory intensiveness of products is relatively high and shows no tendency to decline, and as a result of this inventories represent a significant portion of national wealth. Calculations indicate that in 1977 (according to the data for the year's end) per 1,000 rubles of gross industrial product, there was a total of 157 rubles of working capital in material and commodity inventories, while in 1975, the figure was 151 rubles.² The coefficients for the inventory intensiveness of gross product in the report period could be utilized as an analytical basis in determining the amounts of the necessary commodity and material inventories in relation to the planned production volume on the national economic and sectorial levels.

One of the most important directions for the practical use of the coefficients for the inventory intensiveness of the product in the report period could also be working capital norming. The mentioned decree of the CPSU Central Committee and the USSR Council of Ministers envisages the necessity of working out in industry economically sound working capital norms and in the 11th Five-Year Plan to bring the amounts of own working capital of the production associations (enterprises) into agreement with the designated norms. Here it is essential to bear in mind that for the purposes of limiting excessive centralization in the planning of working capital, only the overall working capital norm of the enterprises is to be set by the superior bodies. Working capital norming and its distribution according to the items within the overall norm are carried out by the enterprise itself. Under these conditions, even greater significance is assumed by economic methods which make it possible statistically to assess the proportional indicators for the use of working capital broken down for the intersectorial ties of the Soviet national economy. The report intersectorial inventory balance and the coefficients calculated on its basis for direct and full inventory intensiveness of the gross product should be used for calculating variations of the demand for working capital in setting its norms.

²Calculated from the data of the statistical annual of the USSR TsSU "Narodnoye Khozyaystvo SSSR v 1978 g.," Moscow, Statistika, 1978, pp 41, 521.

The report intersectorial inventory balance in the national economy, in describing the average annual availability of material working capital in an intersectorial breakdown, in essence opens up a new analytical area for utilizing the method of the intersectorial balance. The system of intersectorial balances which are regularly compiled by the USSR TsSU at present encompasses the intersectorial ties for the reproduction of gross social product, the use of fixed capital, and labor expenditures. The elaboration of a report intersectorial inventory balance makes it possible to significantly strengthen statistical analysis in the functioning of working capital, and thereby substantially raise the level of comprehensiveness for the report national economic balance on the questions of examining various aspects of reproduction. This can be achieved by regularly compiling report intersectorial inventory balances for the same years for which the report intersectorial balances for product production and distribution are worked out for a broad range of sectors both for the USSR national economy and for the Union republics.

Experimental calculations and an analysis of the individual elements in the report intersectorial inventory balance indicate that this balance should be recommended for use in the analytical planning calculations of 3-year and long-range planning on the sectorial and national economic levels, as well as for economic forecasts.

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PLANNING AND PLAN IMPLEMENTATION

USE OF INPUT-OUTPUT MODELS IN ECONOMIC PLANNING ADVOCATED

Moscow PLANOVOYE KHOZYAYSTVO in Russian No 1, Jan 80 pp 51-61

[Article by F. Klotsvog, department head at the Scientific Research Economics Institute under the USSR Gosplan: "The Use of the Intersectorial Balance in Planning Practices"]

[Text] The continuous development of the socialist economy which has been accompanied by profound qualitative changes in the national economic structure and the system of economic relationships requires a continuous improvement in the forms and methods of planning leadership. The CPSU Central Committee and the USSR Council of Ministers in their Decree "On Improving Planning and Strengthening the Effect of the Economic Mechanism on Raising Production Efficiency and Work Quality" pointed to an improvement in the intersectorial and intrasectorial proportions and the ensuring of balanced economic growth as the most important area for improving planning work.

In this regard an important role is played by the method of the intersectorial balance the use of which makes it possible to raise the level of balancing for the national economic plans, to strengthen their focus on achieving the end national economic results, and more comprehensively solve specific planning problems. In the 1960's, Soviet economists worked out modern planning methods for intersectorial proportions based upon an intersectorial balance, and a system of models for the intersectorial balance was created.

The organic incorporation of a system of intersectorial models into the process of working out the national economic plans has been an important factor in improving the methodology of national economic planning in accord with the objective needs of the present-day economy. The USSR TsSU [Central Statistical Administration] has worked out a series of report intersectorial balances for an extended range of products, and work has been started on the annual compiling of intersectorial balances for a consolidated product range. Significant scientific research is being carried out in the nation aimed at studying the trends and factors in the change of the structural indicators for the intersectorial ties of the national

economy and the sectorial structure of the end product elements. Great experience has been acquired in determining these indicators over the long run considering scientific-technical and social progress. In the NIEI [Scientific Research Economics Institute] of the USSR Gosplan, the GVTs [Main Computer Center] of the USSR Gosplan and certain other organizations, the intersectorial balance is used systematically for establishing the rates, proportions and sectorial structure of the national economy over the medium and long run. Many of the Union republics also have definite experience in working out long-range intersectorial balances.

In the USSR Gosplan, in the process of working on the long-range plan, variation calculations are run for the consolidated intersectorial models for the purpose of studying the consequences of taking one or another planning decision and their influence on the development of the basic national economic and intersectorial proportions. Nevertheless the proper use of the intersectorial balance in the practices of national economic planning has not been attained. The results of the calculations of the intersectorial models are used merely as "information for reflection," but have still not become an indispensable element in the planning process. What are the reasons for the insufficient effect of the intersectorial balance on the shaping of the national economic plans and what are the ways for achieving a more efficient use of the given method in national economic planning--these questions need further thorough examination.

The Present Level of Working Out and Utilizing the Intersectorial Modeling Methods

At present a system of intersectorial models has been worked out and tested out experimentally for medium- and long-term planning. It includes a consolidated dynamic model for the intersectorial balance as well as a physical and cost intersectorial balance.

The consolidated dynamic model is designed to determine the growth rates and sectorial structure of the national economy proceeding from various hypotheses on the structure of the end demands of society and an evaluation of the long-range trends in the change of the efficient use of the basic types of production resources. This model synthesizes the results of the forecasts of scientific and technical progress and its impact upon the efficient use of the production resources, as well as the forecasts of the structure of nonproduction consumption of domestic trade and labor resources. On the basis of the forecasts for the basic trends of technical progress in the national economic and industrial sectors, a system of long-range coefficients has been formed for the expenditures of material resources, fixed productive capital and labor, and this provides for a consideration of the effect of the most important scientific and technical processes on the rate and structure of economic development.

The calculations of the dynamic model of the intersectorial balance make it possible to determine a reciprocally balanced system of indicators for national economic development. These include: the growth rate and

structure of national income, the products of the national economic and industrial centers, capital investments, labor resources, exports and imports. The results of the calculations are concretized and detailed on the basis of the calculations of the physical and cost intersectorial balance which at present is worked out for a range including 30 sectors, 25 industrial ministries and 200 basic types of industrial and agricultural products.

On the basis of the calculations of the physical and cost intersectorial balance, a system of indicators for the production and distribution in physical and cost terms for the sectors, basic ministries and departments is formed. This system is correlated to the general economic indicators and proportions. The calculations of the physical and cost intersectorial balance should be used as the initial data for forming the sectorial and functional sections of the national economic plan, for compiling the material balances, and for working out the comprehensive intersectorial programs. At the final stage of compiling the plans, on the basis of the calculations of the physical and cost intersectorial balance, the reciprocal balancing of the basic indicators for national economic development is checked, and the structure of material production and the basic intersectorial proportions being planned for the long run are analyzed.

The research carried out over the last 10-15 years has made it possible to work out a procedure for forming the initial information to construct the intersectorial balances, and above all a system of long-range expenditure coefficients for the following production resources: Raw products, materials, fuel, energy, fixed capital and labor resources. A systematic study of these problems by the sectorial scientific research and design institutes under the procedural leadership of the NIEI of the USSR Gosplan has made it possible to obtain extensive information on the expenditure coefficients for production resources in the national economic and industrial sectors, as well as on the trends and factors for their change under the influence of scientific and technical progress.

An analysis of Soviet economic development has shown that an intensive change is occurring in the national economy in the structure of the intersectorial ties, and this change is having a decisive impact upon the proportions of social production. Thus, over the last 15 years, the expenditures of ferrous metals per million rubles of machine building product have been reduced by almost 40 percent, while the proportional expenditures of the product of the coal industry in electric power have declined by more than 40 percent with a simultaneous increase in the proportional expenditures of oil and gas fuel by more than 60 percent. The proportional expenditures of chemical products have increased over this period as follows: by 2.5-fold in light industry, by almost 3-fold in agriculture, by 1.7-fold in the building materials industry, and by almost 2-fold in the lumber, woodworking and paper industry. The proportional expenditures of agricultural raw materials on light industry products have declined by 24 percent, and by 12 percent for food industry products. Under the influence of the development of social production and the structure of social demand, the

sectorial structure of end national economic product has changed substantially.

The research conducted by the NIEI of the USSR Gosplan together with the sectorial institutes has made it possible to determine the long-range development trends of these processes. Similar research on studying the trends and factors in the change of the structure of intersectorial ties as well as to work out the methods of their modeling has been carried out at the TsEMI [Central Mathematical Economics Institute] of the USSR Academy of Sciences.

At present, a series of programs has been developed for the computer solution to the problems of the intersectorial balance. Such programs have been developed for the BESM-4, YeS-1030, and other computers. Extensive work on the program software for the problems of the intersectorial balance has been carried out at the GVTs of the USSR Gosplan, where programs have been worked out not only for solving various modifications of the intersectorial models, but also for constructing a system of analytical tables to be used on the basis of the intersectorial balance.

The models of the intersectorial balance and the economic information acquired over more than 10 years are being successfully used in the scientific organizations for carrying out the preplanning variation calculations of the rates, proportions and sectorial structure for national economic development over the medium and long run. A complex of intersectorial models which includes a consolidated dynamic and full-scale physical and cost model was worked out for the first time and employed at the NIEI of the USSR Gosplan in 1968 for establishing the economic development prospects during the Ninth Five-Year Plan. Subsequently such calculations have been repeatedly carried out by the NIEI for the Tenth Five-Year Plan, as well as for the long run up to 1990.

A series of variant calculations based on the consolidated dynamic model for the long and medium run was carried out by the IEOPP [Institute for the Economics and Organization of Industrial Production] of the Siberian Division of the USSR Academy of Sciences. A consolidated cost intersectorial model has also been used by the TsEMI of the USSR Academy of Sciences for establishing the long-range national economic development prospects in the process of elaborating a comprehensive program for scientific and technical progress and determining its socioeconomic consequences.

However, the effect of the research conducted at the scientific organizations on the shaping of the long-range plans remains insignificant. We feel that the effective use of the preplanning studies of this sort can be achieved only in the instance that their results are viewed as a basis for compiling the intersectorial planning balances directly at the USSR Gosplan.

Introduction of the Intersectorial Balance into Planning Practices

In 1969-1971, the USSR Gosplan, with the direct involvement of the Sector for the Intersectorial Balance of the NIEI, carried out a series of preparatory studies needed for introducing the intersectorial balance into planning practices. In the process of carrying them out, the methods for constructing and utilizing the intersectorial balance were adjusted in terms of the working conditions of the USSR Gosplan. The nomenclature of the sectors and products was established for the purposes of medium- and long-range planning. The method of calculating the basic indicators of the balance and the forms of preparing the initial information were adjusted. The functions of the Gosplan subdivision in constructing the intersectorial balance were defined. The results of the procedural work carried out are reflected in the section "The Intersectorial Balance for the Production and Distribution of Product" of the Procedural Instructions on the Elaboration of the State USSR National Economic Development Plans.

With the extensive participation of the departments of the USSR Gosplan, the NIEI worked out the physical and cost intersectorial balance for the 1971-1975 draft plan. This made it possible to carry out the following: To analyze the proportions of the Tenth Five-Year Plan; to carry out a series of analytical calculations based on the intersectorial balance; to determine the national economic resources for national income and capital investments being channeled into increasing the prosperity of the people; to establish the resource structure for accumulation; to study the impact of structural changes in end product and production consumption on the rate and structure of material production. The work carried out showed the actual possibility and advisability of a systematic elaboration of intersectorial balances in the USSR Gosplan, and created the necessary prerequisites for the direct use of this method in the process of shaping the national economic plans.

Nevertheless, the achieved positive results of introducing the intersectorial balance into planning practices were not reinforced. The GVTs of the USSR Gosplan, in applying the elaborated methods, at the request of the leadership of the Summary Department of Long-Range Planning, repeatedly carried out a series of variant calculations of the intersectorial balance for 1976-1980, for the 11th Five-Year Plan and for the long run. But these were predominantly calculations of consolidated cost balances. These calculations could not interact directly with the existing system of the sectorial and summary-resource sections of the plan, and they were insufficient for carrying out comprehensive planning. For using the intersectorial balance as an instrument for synthesizing the summary national economic plan, it is essential to ensure the joint elaboration of the consolidated cost intersectorial balances with the full-scale physical and cost intersectorial models. Precisely the physical-cost and intersectorial balance can interact directly with the sectorial and summary sections of the plan and ensure the reliable work of the consolidated intersectorial models. For this reason, without employing the full-scale physical and cost intersectorial model, it is impossible to make effective use of the intersectorial balance in planning.

As a rule, the insufficiently effective use of the intersectorial balance has been caused by the lack of a dependable system of standards. Certainly the supplying of the calculations of the intersectorial balance with normative information reflecting the basic trends of scientific and technical progress represents a very important and complicated problem. At the same time, currently this is not the main difficulty.

The method of the intersectorial balance in its present-day forms fundamentally does not alter the existing system of indicators and forms for calculating the plan. This provides an opportunity for the broad interaction of the balance with the existing system of planning calculations. Under such conditions the normative information employed in planning practices makes it possible to employ systematically the intersectorial balances in working out the plan. There are attempts to justify the poor use of the intersectorial balance in planning practices supposedly by the imperfection of the intersectorial models. However, there already is experience of using the intersectorial balance for establishing the economic development proportions. This experience has been gained by the NIEI of the USSR Gosplan and other scientific organizations. The actual reasons for the insufficient use of the intersectorial balance consist in the slow reordering of the organization and methodology of planning.

The 25th CPSU Congress raised a number of demands on improving national economic planning, including one of the most important of strengthening the comprehensive national economic approach to the formation of the plans. This means the necessity of strengthening the active setting role of the general national economic calculations and indicators, and the elaboration of the plan on all levels of the planning system should be subordinate to achieving this. A comprehensive approach to creating the plan presupposes the necessity of initially shaping its overall concept and the system of basic indicators for national economic development which determine national economic resources and the direction of their distribution in accord with the general aims of economic development. At the same time in planning practices the obsolete approach to forming the plan as a process of "linking together" the sectorial projections has still not been fully overcome.

The method of the intersectorial balance represents an instrument for elaborating a comprehensive concept for the balance development of the economy. This should serve as the basis for forming the development plans of the individual sectors and for working out national economic programs. Along with this, the given method makes it possible for the central planning bodies to focus attention on the basic national economic and intersectorial proportions, in opening up an opportunity to plan them on the basis of studying and predicting the most important economic and technical-economic trends and factors, and determining the quantitative indicators of the plan proceeding from the long-range indicators for the efficient use of production resources. At the same time, the intersectorial balance presupposes a harmonious combination of the research approach considering the long-range structure of the end needs of society, and thereby helps to strengthen the focusing of the national economic plan on the achieving of end results.

The Intersectorial Balance Under the Conditions of the Functioning of the ASPR

The recent years of work on introducing the intersectorial balance into planning practices have been related to developing an automated system of planning calculations (ASPR). The creation of the ASPR in terms of its aim presupposed a systematic introduction of mathematical economics methods and computers into planning practices. Such an approach to introducing mathematical economics methods undoubtedly is more effective than the use of individual mathematical economics models which are not interrelated.

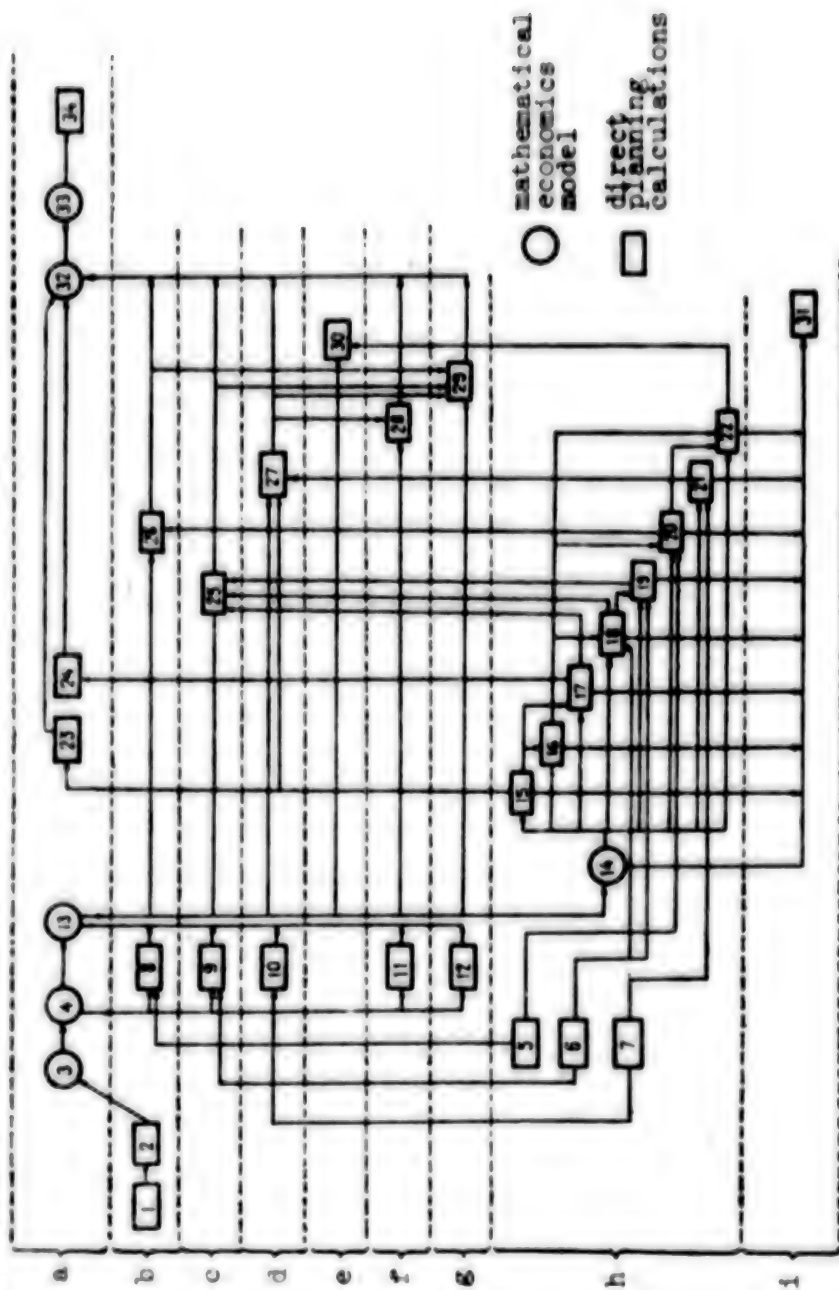
The planning materials created in recent years on the ASPR have correctly determined the place of the intersectorial balance in the process of working national economic plans under the conditions of the functioning of the ASPR. Within the subsystem "Summary National Economic Plan" it was considered advisable to create a special unit for planning intersectorial proportions. The function of this unit was to plan the rates, proportions and sectorial structure of the national economy on the basis of utilizing the system of intersectorial models. The preliminary plans worked out and approved by the leadership of the USSR Gosplan for the designated system included: a detailed description of the structure and functions of the unit for planning intersectorial proportions; the characteristics of intersectorial models and their input and output information; a diagram for the interaction of the given unit with the other units and subunits of the ASPR in the process of working out the national economic plans. The models of the intersectorial balance were incorporated among the problems of the first stage of the ASPR which was officially accepted by the state commission.

Regardless of all of this, the work of creating the ASPR has not had a substantial impact upon the use of the intersectorial balances in planning practices primarily due to the fact that in converting the individual planning problems to computer solving, their functional interaction and informational compatibility have not been achieved.

The CPSU Central Committee and the USSR Council of Ministers recognized the necessity of completing the introduction of the ASPR during the 11th Five-Year Plan with the broad utilization of balance calculations. This requires a substantial change in the content and organization of work in the area of creating and introducing the ASPR.

It is felt that in the new stage of work on the ASPR, attention should be focused on creating a range of interacting mathematical economics models and direct planning calculations for working out the basic sectors and indicators of the plan. In this complex the models of the intersectorial balance should hold the central place.

The structure of the complex and the schematic diagram for elaborating the basic sections and indicators of the national economic plan using the intersectorial balance are shown in the diagram.



Schematic diagram for the elaboration of the basic sections and indicators of the national economic plan using the intersectoral balance

Key: a--Summary national economic plan; b--Labor and personnel; c--Capital investments; d--Material balances of distribution plan; e--Costs and profit; f--Foreign economic ties; g--Standard of living; h--Sectorial subsystems; i--Territorial planning and placement of productive forces.

The diagram includes the following types of important plan quotas:

1. Calculations of the size of the population.
2. Calculations for the balance of labor resources.
3. Determining the volume and structure of national income on the basis of macroeconomic models.
4. Calculations of the rates, proportions and sectorial structure of the economy on the basis of a consolidated dynamic model of the intersectorial balance.
5. Calculations of labor productivity.
6. Calculations of indicators for the efficiency of fixed capital and capital investments.
7. Calculations of the proportional expenditures of raw products, materials, fuel and energy.
8. Examination of proposals on the growth of labor productivity and the sectorial distribution of the number of persons employed in material production.
9. Examination of proposals for raising the efficient use of capital investments and their sectorial distribution.
10. Examination of proposals on the proportional expenditures of material resources.
11. Examination of proposals on the volume and sectorial structure of imports and exports and the calculations for the commodity structure of imports and exports.
12. Examination of proposals on the volume and sectorial structure of the consumption fund and the calculations for the volume of commodity turnover and market stocks.
13. Preliminary variation of basic indicators for the development of the sectors on the basis of the physical and cost intersectorial balance.
14. Calculations of the basic indicators for the development of the sectors on the basis of the model for optimum development and placement.
15. Calculations of the production volumes for the product of the sector in physical units.
16. Calculations of the production volumes for the product of the sector in cost units.
17. Calculations of production capacity.
18. Calculations for the use of fixed productive capital.
19. Calculations of capital investments in the sector.
20. Calculations of labor indicators.
21. Calculations of the demand of the sector for material resources.
22. Calculations of profits and costs.
23. Compilation of summary plan for product output in physical units.
24. Compilation of summary plan for product output in cost units.
25. Compilation of summary plan for completion of capacity, fixed productive capital and capital investments.
26. Compilation of summary labor plan.
27. Compilation of material balances.
28. Compilation of summary foreign trade plan.
29. Compilation of summary plan for improving standard of living.
30. Compilation of summary plan for profits and costs.

31. Calculations of basic indicators for economic development in the union republics and economic regions.

32. Calculations of balanced system of basic indicators for the development of national economic and industrial sectors on the basis of the physical and cost intersectorial balance.

33. Calculations of consolidated cost intersectorial balance.

34. Calculations of national economic balance.

The given cycle of calculations in the process of working out the plans should be carried out repeatedly for the purpose of obtaining coordinated decisions on all the planning levels. At the various stages of working out the plan (the stages of shaping the overall concept, the basic directions, the draft plan and in compiling its long-range, medium-range and annual types), the schematic diagram of planning calculations has certain particular features. However, basically its structure and sequence are valid for the different types of the plan and planning stages. As is seen from the given diagram, the models of the intersectorial balance should play an active role in shaping the plan. They perform setting functions at the initial stage of the cycle of planning calculations and a coordinating function at its concluding stage. Along with the models for the optimum development and placement of the sectors, the models of the intersectorial balance ensure the establishing of the most effective economic development proportions.

A majority of the planning problems envisaged in the given diagram has already been worked out and tested out and can be used in planning work. However, many of them in information terms are not compatible. The calculations are carried out according to an incompatible product range. In a number of instances the methodology of calculating analogous indicators differs. In further work on the ASPR it is advisable to pay particular attention not to broadening the planning problems but rather to achieving their informational compatibility and ensuring the possibility of its automated transfer from one problem to another. In this instance with clearly organized work it is possible even in the next 2 years to create a complex of interacting mathematical economics models and direct planning calculations which would be applicable in the process of working out the national economic plans.

Certain Questions of Using the Intersectorial Balance in the Union Republics

At present, experience has been acquired in constructing intersectorial balances for the Union republics. Of important significance for the furthering of this work was the elaboration of the report intersectorial balances of the Union republics organized under the TsSU. In the economic institutes of the Armenian, Kazakh, Kirgiz, RSFSR and Uzbek gosplans, in the GlavNIIVTs [Main Scientific Research Institute of the Computer Center] of the Ukrainian Gosplan, and certain other republics, the intersectorial balances have been worked out for the long run. The institute of the Latvian Gosplan has acquired experience in constructing physical and cost intersectorial balances. The work of constructing physical and cost

Intersectorial balances is also being carried out at the institute of the Georgian Gosplan, and has also been commenced in the institutes of the Kazakh and Uzbek gosplans.

The central scientific research organizations (the TsEMI of the USSR Academy of Sciences, the NIEI of the USSR Gosplan, and the GVTs of the USSR Gosplan) have provided procedural aid to the institutes of the Union republic gosplans in working out the intersectorial balances for establishing the development prospects of the republic economy as well as in carrying out the corresponding computer calculations. Scientific conferences and meetings are organized systematically on exchanging experience and working out the intersectorial balances involving specialists from the Union republics.

Nevertheless, the level of the practical use of the intersectorial balances remains very low in the economic planning of the Union republics. In a majority of instances, the intersectorial balances are worked out in isolation from the problems of a scientific basing of the development prospects for the structure of the republic economy, and without proper interaction with other research on these problems. Often the gosplans of the Union republics do not pay sufficient attention to examining the results of the intersectorial studies, and do not set for the elaborators of the intersectorial balances problems the solution to which is urgent for the long-range development of the economy in one or another republic. The level of leadership over the intersectorial research in the republics by the central scientific research institutes is not sufficient. For example, the elaboration of the long-range intersectorial balances carried out by the NIEI of the USSR Gosplan for the USSR national economy as a whole has not been coordinated with analogous work on the individual Union republics. At the same time undoubtedly such coordination would substantially raise the effectiveness of the research conducted both in the Union republics and for the national economy as a whole. Up to now, we have not succeeded in creating a unified software for computer calculations of the consolidated dynamic and full-scale physical and cost intersectorial balances.

At present the scientific institutions of the Union republics are confronted by the problem of working out and developing the models of the physical and cost intersectorial balance. However the real basis for the systematic elaboration of these balances is as yet lacking on the republic level. The Union republic gosplans have not worked out material balances for the most important product types for the economy located on the republic's territory. Fuller information is received by the republic territorial administrations under the system of the USSR Gosplan. But they, as a rule, do not submit the corresponding data to the Union republic gosplans. Under such conditions the creation of the republic physical and cost intersectorial balances is impossible without the collection of information on the individual enterprises, and this is a very labor-intensive job. A majority of the Union republic scientific institutes does not possess sufficient forces for carrying this out. We feel that the elaboration of the report physical and cost intersectorial balances for the Union republics and the USSR as a whole by the TsSU bodies should precede the effective development

of work in constructing the planning physical and cost intersectorial balances of the Union republics.

The Further Development of Scientific Research in Improving the Models and Methods of Elaborating the Intersectorial Balance

Regardless of the fact that up to now the problem of the effective use of the elaborated models and methods for constructing an intersectorial balance has not been solved, it is important to further improve the existing methods for planning intersectorial proportions and to create fundamentally new intersectorial models. At the NIEI of the USSR Gosplan, this work is being carried out in the following areas: Broadening the use of dynamic principles for constructing the intersectorial models; incorporating optimization elements in these models; using the intersectorial balance for planning financial proportions.

The realization of the designated areas for improving the intersectorial models would require the elaboration and experimental testing out of a series of fundamentally new intersectorial models. This would include a consolidated optimization dynamic model for the intersectorial balance and designed for the preplanning setting of the economic development rates and structure over the long run. The model would be based upon the principle of breaking down the expenditures of production resources for each sector into two component vectors: the base vector reflecting the level and structure of the proportional expenditures occurring in the base period; the incremental vector which represents the ratio of the increase in expenditures in relation to the increase of product. The criterial function of the model could be a maximization of the increase of the consumption fund with a set structure for the distribution of this increase over the years.

Experimental calculations of the given model have affirmed the advisability of using it for setting the long-range development prospects of the most important national economic and intersectorial proportions. At present work is being continued to improve this.

Broadening of the use of dynamic principles for constructing intersectorial models is realized primarily in creating disaggregated dynamic models on the basis of the physical and cost intersectorial balance. Research has made it possible to form such a model and to study the possibilities of supplying it with the necessary information. The carrying out of this work has necessitated the solving of the following new problems: Determining the possibility and advisability of incorporating in the system of the intersectorial balance the balances of production capacity as one of the bases for capital investment planning; studying the ways and methods for depicting the capital construction planning processes in the intersectorial balance; working out the methods of intercoordinating the capital construction program with the program for the development of machine building; incorporating in the model the problems of optimizing the foreign trade structure.

The model includes calculations for 120 product types in physical units, 40 types of production capacity, 33 national economic and industrial sectors, and 25 basic industrial ministries. It is calculated for the 5-year period by the years using linear programming procedures. It has been proposed that the maximum national income over the 5 years be used as the criterion function of the model.

One of the areas of work in developing the new intersectorial models has been research on modeling the processes of the formation, distribution, redistribution and use of national income in accord with the indicators for the production and use of social product.

Along with the designated areas for improving the intersectorial models, very important in scientific and practical terms has been the work of creating interregional intersectorial models and this for a number of years has been carried out at the IEOPP of the Siberian Division of the USSR Academy of Sciences. The creation of such a model will make it possible to solve the problem of integrating the national and regional intersectorial models on a fundamentally new basis.

In our opinion, the elaboration of intersectorial models is an important area for utilizing the method of the intersectorial balance. As yet such work has not been properly developed.

The creation and experimental testing out of new, more advanced intersectorial models should help to expand the use of the method of the intersectorial balance in the practices of national economic planning.

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BUDGET AND FINANCE

ROLE OF FINANCE, PRICE STATISTICS REVIEWED

Moscow VESTNIK STATISTIKI in Russian No 12, Dec 79 pp 3-9

[Article by M. Kokonina: "Improving the Economic Mechanism and the Statistics of Finances and Prices"]

[Text] The decisions of the 25th Party Congress and of the subsequent plenums of the CPSU Central Committee have set the basic ways for improving the economic mechanism.

The specific measures to implement these decisions were reflected in the recently approved Decree of the CPSU Central Committee "On Further Improving the Economic Mechanism and the Tasks of the Party and State Body" and the Decree of the CPSU Central Committee and the USSR Council of Ministers "On Improving Planning and Strengthening the Effect of the Economic Mechanism on Raising Production Efficiency and Work Quality." A number of new tasks stem from these decrees for finance and price statistics.

Within the system of the comprehensive measures to improve national economic management as outlined by the decrees, an important place is held by the questions of improving financial planning, the further development of the economic mechanism and a strengthening of the role of economic levers and incentives. Thus, as part of the five-year economic and social development plan of the nation, along with the balances for material and labor resources, for each year of the five-year plan a financial balance will be worked out and this will provide the amount of expenditures to carry out all the measures set in the state plans and their coverage by financial resources, as well as the creation of the necessary financial reserves. A financial balance is also to be worked out as part of the annual plans. Under these conditions, a greater role is given to the report balance of financial resources and state expenditures as drawn up by the Department for Finance and Price Statistics of the USSR TsSU [Central Statistical Administration], as a basis for working out the summary planning five-year and annual financial balances. In this regard a most important task of finance statistics should be a further improvement in the procedure for compiling the report balance of financial resources and state expenditures, and the adjustment of its individual provisions in accord with the changes

made in the planning and economic incentive system. It is also essential to shorten the times required for working out this balance. The Decree of the CPSU Central Committee and the USSR Council of Ministers also provides for an improvement in financial planning on a level of the ministries, the departments and the production associations (enterprises).

Simultaneously with the draft five-year plan, proceeding from its basic indicators, five-year financial plans should be worked out with a breakdown for the years of the five-year plan, as well as annual financial plans. The fulfillment of these plans must be judged on the basis of the report income and expenditure balance compiled by the ministries, the departments and production associations (enterprises).

At the same time a uniform form is presently lacking for the compiling of such balances. For this reason it is advisable that the USSR Ministry of Finances with the approval of the USSR Gosplan and the USSR TsSU approve a form for the report income and expenditure balance of the ministries and departments as well as instructions for filling it out. The use of report data from the ministries will make it possible to provide a better quality elaboration of the report balance of financial resources and state expenditures by the Department for Finance and Price Statistics of the USSR TsSU, and to significantly improve its analysis.

The Decree of the CPSU Central Committee and the USSR Council of Ministers "On Improving Planning and Strengthening the Effect of the Economic Mechanism on Raising Production Efficiency and Work Quality" also provides a number of measures to improve profit planning, and to raise the role of profits in evaluating the economic activities of the enterprises and organizations and in providing an economic incentive for a rise in work efficiency and quality. In 1978, as a whole for the national economy, 114.3 billion rubles of profit were obtained, and according to the 1979 plan, profit has been set at 122.3 billion rubles, with over 60 percent being received in industry.

Profit is the most important source of income for the USSR State Budget. Around a third of its income is presently formed from the payments made by the enterprises and organizations out of profits. They comprise around 60 percent of the total earned profit, while the remaining portion is channeled into financing the expenditures of the enterprises and organizations on capital investments, the replenishment of working capital, the development of science and technology, as well as into forming the economic incentive funds, and so forth.

Considering the important role of profit in forming state income, the decree of the CPSU Central Committee and the USSR Council of Ministers provides that total profit with a breakdown for the years of the five-year plan will be set for the industrial ministries, departments, associations and enterprises as one of the basic indicators in the five-year economic and social development plans.

In the annual plans, the total profit is to be set by the industrial ministries themselves with the approval of the USSR Gosplan or the Union republic gosplans, and in the annual plans of the associations and enterprises by the superior organizations. A profit indicator will also be set in the five-year and annual plans of the ministries and departments carrying out construction and installation work, and also for the construction and installation organizations.

In contrast to the previous procedure, when only profit growth rates were set in the five-year plans, provision is also made to plan profit in absolute amounts. In this regard, the task of finance statistics is to assess the fulfillment of the five-year profit plans, proceeding from the prices and the conditions of the five-year plan. The solving of this problem is significantly simplified by the established principle of the stability of wholesale prices in industry, estimated prices in construction and freight shipping rates over the period of the five-year plan. However, individual unaccounted for special changes in wholesale prices and the expenditure level are possible, and these can influence the profit volume and require its recalculation for assessing the fulfillment of the quotas in the five-year plan. Because of this it is essential for the Department for Finance and Price Statistics of the USSR TsSU to work out a methodology for this recalculation, with the agreement of the corresponding subdivisions of the USSR Gosplan and the USSR Ministry of Finances, as well as incorporate the individual changes in the current accounting.

Starting with the 11th Five-Year Plan, for the industrial ministries a new profit distribution principle is to be established for proceeding from variable deduction rates for the profits left to the ministries. The rates are differentiated according to the years of the five-year plan. On their basis, in the five-year plans, absolute amounts of profit deductions for the state budget are set, and when necessary, allocations from the budget. Here, if the established profit plan is not fulfilled in any given year, then the payments to the budget are made fully by the ministries with a corresponding reduction in the funds left to them.

The new profit distribution procedure should raise the responsibility of the enterprises, ministries and departments for the results of the financial and economic activities as well as their interest in the most effective use of the material and financial resources. At the same time the completing of taut profit plans by them is encouraged.

Enlarged changes in the profit distribution procedure in industry require certain adjustments in the current reporting on profit utilization. The task of finance statistics is to ensure an analysis of the changes occurring in the profit distribution structure under the conditions of the new system, and systematically carry out such analysis for the ministries, departments and Union republics.

Profit is one of the basic indicators set for assessing the results of economic activities, and for this reason the task of finance statistics is

to broaden factor analysis for the fulfillment of the profit plans and its growth rate. Particular attention must be paid to the intensive factors such as the reduction in product costs, a rise in product quality and efficient use. For improving profit analysis, it is essential to broaden the practices of carrying out surveys of the industrial enterprises and construction-installation organizations for ascertaining the specific reasons for the nonfulfillment of plans, for operating at a loss, and for the formation of nonproductive expenditures and losses.

In accord with the decree of the CPSU Central Committee and the USSR Council of Ministers, there are plans to raise the effectiveness of the economic incentives, and, in particular, to strengthen the dependence of the amounts of the economic incentive funds of the enterprises and organizations upon the end results of their production activities. Changes are to be made in the procedure for forming the economic incentive funds. They will be formed from proceeding from stable rates set in differentiated amounts according to the years of the five-year plan. The deductions into the incentive funds will be made from profits and will depend primarily upon the growth of labor productivity, the production of superior quality products and the fulfillment of the delivery plan in accord with the concluded contracts. Considering the particular features of the operation of the individual sectors, other fund-forming indicators can be set including a reduction in costs, the return on investment, the shift factor, the profitability level, the saving of material resources, and so forth.

The change in the procedure for making deductions into the funds also requires certain adjustments in current reporting. The main tasks of finance statistics in the area of analyzing the indicators of the economic incentive funds should be a study of the effective use of the new procedure of economic incentives and the dependence of the amount of deductions into the funds upon plan fulfillment for the basic fund-forming indicators, and analysis of the areas of use of the economic incentive funds. This means that the practice of surveying the enterprises and organizations must be extended.

The decree of the CPSU Central Committee and USSR Council of Ministers outlines measures which will accelerate scientific and technical progress and expand the output of new highly efficient products. One of these measures is to improve the financing of scientific research, experimental design and engineering work, as well as increase the expenditures related to the development and introduction of new equipment.

Within the ministries and departments, a unified scientific and technical development fund is being created and this is formed from deductions from the planned profits of the scientific-production and production associations (enterprises) according to a rate set in the five-year plan (with an annual breakdown) and determined in percent of the net product, and in individual sectors, in relation to commodity product. Because of this it is important to analyze the areas and effectiveness of use of the money of this fund both on the basis of report data and from materials of special surveys of the enterprises and organizations.

Improving the use of the fixed productive capital and working capital, the saving of material resources and a reduction in the stocks of uninstalled equipment in capital construction are reserves for raising the efficiency of social production. In industry, by the beginning of 1979, fixed productive capital was 479 billion rubles, and working capital in material and commodity inventories was 101 billion rubles. With such enormous amounts of productive capital, even a savings of a fraction of a percent of its use provides a very tangible effect.

In the designated decree, further encouragement was provided for the production associations, enterprises and construction sites to make most rational use of the productive capital and reduce the stocks of uninstalled equipment. The payment for productive capital is to be set, as a rule, at an amount of 6 percent of the value of this capital, and here the list of productive capital for which concessions are to be granted for budget payments is to be reduced. The production associations and enterprises which have fulfilled the production and profit plans with a smaller amount of capital may keep the savings obtained for the capital payment. At the same time the payments to the budget are reduced by this amount.

In this regard, finance statistics is confronted with the task of analyzing the rise in the incentive role of the capital payment in improving the use of capital under the new management conditions and increasing the share of the capital payment in the total profit payments to the budget as a whole for industry and for the individual ministries and departments.

There are also plans to systematize the norm setting of working capital, and to have the USSR industrial ministries work out economically sound working capital norms and their setting with the approval of the USSR ministry of finances. The own working capital should be brought into accord with the established norms. The posing of such a task is very timely. The report data worked out by finance statistics and the materials of surveys conducted by the statistical bodies indicate that for certain enterprises and organizations the working capital exceeds the current norms, while for others they are below. This is due both to the irrational use of working capital and its distribution between the enterprises, as well as to shortcomings in working capital norming.

The task of finance statistics is to analyze the results of systematizing the norm setting of working capital and to show its influence on the state of own working capital and the improvement in the financial state of the enterprises and organizations. It is also essential to analyze the influence of the revision of the working capital norms on changing the above-normal commodity and material inventories which are not credited by the bank.

The decree also provides for a rise in the role of bank credit in financing capital construction, expenditures on the development of science and technology, the forming of the working capital of the enterprises and organizations, and improving payments in the national economy.

Proceeding from this, finance statistics has the job of studying the changes in the share of bank credit in the sources for financing capital investments and the formation of working capital, and analyzing the efficient use of credit in industry and construction and the influence of extending the sphere where credit is used on improving payments and the financial state of the enterprises and organizations.

The decree, in particular, provides for a change in the procedure for crediting large production and power equipment for production-end projects. Crediting will be extended even after the lapsing of the planned dates for installing the equipment, however the interest rate will be increased for the orderers of the equipment. In this regard, the Department for Finance and Price Statistics of the USSR TsSU together with the Bookkeeping and Reporting Administration of the USSR Ministry of Finances will revise the procedure for calculating above-planned inventories of uninstalled equipment which are not credited by the bank, and introduce proposals for the corresponding changes in current reporting.

An improvement in the economic mechanism presupposes a continuous improvement in the price system and price formation. Measures have been set to further strengthen the incentive role of prices in scientific and technical progress, and to raise product efficiency and quality. Provision has been made to increase the amounts of the incentive surcharges to the prices for new highly efficient production and technical products. The period of the incentive surcharges on the price is to be increased up to 4-5 years in the event the product has been awarded the Quality Sign. At the same time the amount of price rebates on second-quality products is to be increased up to 50 percent.

Changes are to be made in the procedure for utilizing the price surcharges. Up to 70 percent will be channeled into the economic incentive funds and the remaining portion will be distributed equally between the state budget and the unified scientific and technical development fund.

With recertification of the product and an improvement in its technical and economic parameters, a product can be reassigned the Quality Sign with the maintaining of the amount of the incentive surcharge. With the absence of such improvements, the surcharge and the period of its action are to be reduced by one-half.

For new consumer goods, increased temporary wholesale and retail prices are maintained over the entire period the Quality Sign is in effect. Here deductions are made at increased rates into the economic incentive funds.

There are also plans to extend the practice of employing fixed payments for highly profitable types of production and technical products produced over an extended time.

The task of price statistics is to improve economic analysis of the incentive influence of prices on improving product quality and its efficiency,

and further studying the dependence of the price level of a product upon the economic effect from the use of this product by the consumer. Here wider use should be made of the calculation materials of the manufacturing enterprises for establishing the limit and wholesale prices for the new products, as well as materials from surveying the actual effectiveness of this product for the consumer. The method of such surveys will be worked out by the Scientific Research Institute for Prices under the USSR State Price Committee with the participation of the Department for Finance and Price Statistics of the USSR TsSU.

The Department for Finance and Price Statistics of the USSR TsSU must broaden the number of product groups and types for which a systematic observation is made for the change in the price level calculated per unit of actual effect.

The decree provides that profitability is to be set for the individual product types of the manufacturing industry as the ratio of profit to costs minus material expenditures. This will improve the use of material resources, and will create conditions for a more objective determination of the share of profit in the price structure. Measures are also planned which will bring about a reduction of material intensiveness and the use of cheaper materials in production. In these instances, with the maintaining of product quality, prices for the product will not be changed until the end of the five-year plan, and the profit of the associations and enterprises will increase as well as the economic incentive funds.

In this regard it will be necessary to solve a number of methodological questions related to calculating profitability according to the new method, and provide for the isolating of the necessary indicators in the accounting, having provided a possibility of comparing the normed profitability set in establishing the prices with the actually existing profitability for the individual product groups and types.

One of the basic principles in improving planning as outlined by the decree of the CPSU Central Committee and USSR Council of Ministers is to provide for the rational use of productive capital, material, labor and financial resources in working out the USSR economic and social development plans, to strengthen savings and eliminate losses in the national economy.

Finance and price statistics possess rich material and an analysis of this can help to disclose the existing reserves for a further rise in the efficiency of social production, and consideration of them in the planning and management of the national economy. However, analysis of these materials requires deepening and broadening.

Particular attention must be paid to improving factor analysis of profit and profitability calculated as the ratio of profit to capital as well as to product costs, and bring out the changes in these indicators as a result of the revision of prices, changes in the expenditure level, a rise in the quality and efficiency of the produced product, and the rational use of

productive capital. It is essential to bring out the reasons for the operating at a loss for individual enterprises, and the production losses for certain types of products, mainly by broadening enterprise surveys. There must be a significant improvement in the methodology for determining the composition of nonproductive expenditures and losses and their analysis. The elaboration of such a methodology has been entrusted to the Scientific Research Institute of the USSR TsSU with the participation of the sectorial administrations and departments of the USSR TsSU.

Great attention must be paid to analyzing the use of materials and commodities, the turnover rate of working capital, and to disclosing the reasons for the formation of above-norm and surplus inventories of raw products, materials and finished products as well as stocks of uninstalled equipment in capital construction.

The successful solution of the problems confronting finance and price statistics should help to raise the level of analysis for the indicators of financial and economic operations of the production associations, enterprises, ministries and departments. It should also increase the incentive role of prices in raising product efficiency and improving product quality under the conditions of the new management system and provide analysis of the effectiveness from the introduction of this system.

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BUDGET AND FINANCE

PERSONAL SAVINGS UNDER SOCIALISM DISCUSSED

Moscow DEN'GI I KREDIT in Russian No 12, Dec 79 pp 38-45

[Article by Yu. I. Kashin, candidate of economic sciences: "The Economic Essence of Personal Savings Under Socialism"]

[Text] On the basis of the uninterrupted rise in the prosperity of the people, personal savings balances in 1976 passed the 100 billion mark and approached approximately 40 percent of the size of the personal consumption fund in the national income, whereas even as late as the beginning of 1956 this proportion did not reach even 8.5 percent (see the table).

Growth of Balances of Personal Savings Accounts in Savings Banks and the State Bank of the USSR*

	<u>1951- 1955</u>	<u>1956- 1960</u>	<u>1961- 1965</u>	<u>1966- 1970</u>	<u>1971- 1975</u>
Balances of personal accounts in savings banks and USSR Gosbank:					
Remainder at the end of the period, in billions of rubles	5.50	11.0	18.9	46.7	91.2
Average annual growth over the period:					
In billions of rubles	0.70	1.1	1.6	5.6	8.9
In percentage	22.00	15.0	11.3	19.9	14.3
Personal consumption fund in the national income, in prices actually in effect:					
Remainder at the end of the period, in billions of rubles	66.40	93.9	124.9	177.9	231.8
Average annual growth over the period:					
In billions of rubles	3.40	5.5	6.2	10.6	10.8
In percentage	5.40	7.1	5.9	7.3	5.4

Table (continued)

	<u>1951- 1955</u>	<u>1956- 1960</u>	<u>1961- 1965</u>	<u>1966- 1970</u>	<u>1971- 1975</u>
Ratio of balances to the personal consumption fund:					
On the basis of average annual growth rates (coefficient of the positive difference)	4.10	2.1	1.9	2.7	2.6
With respect to the absolute size of average annual growth over the period	1:5	1:5	1:4	1:2	1:1
With respect to the absolute size at the end of the period	1:12	1:9	1:7	1:4	1:3

* Computed from data in the following sources: "Narodnoye khozyaystvo SSSR v 1970 g." [Soviet National Economy in 1970], Moscow, Statistika, 1971, p 562; "Narodnoye khozyaystvo SSSR v 1975 g.," Moscow, Statistika, 1976, pp 565 and 597; "Statisticheskii yezhegodnik stran-chlenov Soveta Ekonomicheskoy Vzaimopomoshchi" [Statistical Yearbook of the CEMA Member Countries], Moscow, CEMA Secretariat, 1970, p 53; "Statistical Materials," VESTNIK STATISTIKI, No 4, 1966, p 96.

Over the last 20 years personal savings in savings banks and USSR Gosbank have nearly doubled every 5 years. Moreover, their average annual growth rates have exceeded between twofold and fourfold the corresponding indicator of the personal consumption fund in the national income. Abrupt shifts have accordingly taken place in distribution not only of the average annual volume of net personal income used for the growth of personal consumption and formation of personal savings, but also of total personal assets which could potentially be used for purchases.¹

For instance, whereas in the 1951-1965 period material consumption amounted to 4-5 rubles for every ruble in the volume of net income saved, in the years of the Eighth Five-Year Plan (1966-1970) this ratio dropped to 1:2, and in the ninth (1971-1975) the distribution of this portion of net income between accumulation and consumption was nearly equal: for every ruble of growth of savings there was a growth of only 1 ruble 21 kopecks in the personal consumption fund. This redistribution to the advantage of net income also brought about an essential change in the proportional structure of the total potential buying power of the population: whereas in the years of the Fifth Five-Year Plan (1951-1955) 12 rubles of personal assets were actually used for every ruble saved from funds potentially intended for use, in the 1971-1975 period this figure was only 2.5 rubles.

This dynamic behavior of savings, along with the related phenomenon of the enhanced role they play as a factor in raising the efficiency of the process of reproduction, account for the close interest paid in the problem

and the desire to understand more thoroughly the essential traits of this category and the intrinsic patterns and prospects of their development.

In the most general terms savings are a crystallization of income in order to satisfy future needs. But the content of this category is not so unambiguous. Personal savings are at the same time an element of the money supply in cash and noncash form functioning as personal resources. Finally, savings are an inseparable element of the personal property of individuals. In spite of the unconditional interrelationship between the aspects of the nature of savings we have identified, each of them makes it possible to reveal specific traits of the category.

Delineation of savings as one of the directions in the use of personal income, which at the macroeconomic level is closely bound up with the problems of the distribution of the national income into consumption and accumulation, with proportions in the use of personal income, and ultimately with the possibility of nationwide redistribution of money, emphasizes the place of savings in the process of reproduction and, specifically, their role in a number of factors ensuring a rise in the rates and efficiency of economic activity.

As a matter of fact, as a portion of income whose use is deferred in time, personal savings are a resource subject in advance to planned use for additional expansion of production, since it is a part of the newly created value which in conformity with the patterns of distribution is allocated to the personal sector in the form of money, but does not have to be furnished consumer goods and services in the planning period.

The planned change in the physical composition of the national income produced, of course, corresponds to this process of redistribution of value; to be specific: against the personal savings normally formed there must be a product in a form suitable for productive rather than personal consumption.

In the economics literature it is usually asserted that the redistribution of value related to the formation and use of the savings fund should be in the form of credit.

The scale of redistribution through the credit mechanism can be judged from the following figures.² For instance, whereas in the 1940-1950 period the share of these resources was comparable both in terms of outstanding credit and also the growth of credit-financed investments and held steady between 10 and 13 percent, by 1960, because of the accelerated growth of personal savings, they were capable of accounting for one-third of the growth and approximately 24 percent of the total remainder of credit-financed investments. At the present time balances in savings accounts and USSR Gosbank are sufficient to furnish 75-80 percent of the growth of short-term credit-financed investments and 50-60 percent of the growth of total credit-financed investments. The share of these resources in total outstanding

credit has come close to one-half, and has reached 60 percent with respect to short-term investments.

The principal argument in favor of the use of the credit mechanism for redistribution of these funds is the character of the very process of accumulation, which comes about as the result of the summation of its two components: the actual new formation of savings and personal use of funds previously accumulated, each of these components in turn constituting the sum total of millions of analogous processes taking place within families. The credit mechanism for distribution under such circumstances is being called upon on the one hand to see that the money of individuals flows constantly into the process of reproduction as new savings are created, and on the other to see that credit granted in the past is paid off punctually to make that money available as individuals use amounts already accumulated. It is particularly important to emphasize this last point, since the normal process of reproduction requires not only that borrowed funds corresponding to the amount of personal savings ready and intended for use be punctually made available from the turnover of enterprises, but that these savings actually be used. Yet we cannot but see that the capabilities of the credit mechanism proper for accomplishing this redistribution are very restricted in the conception we have set forth. It seems to us that it can function autonomously only if we are talking basically of a redistribution within the limits of the money form of value itself, i.e., with no change in the physical structure of the product produced. In this case personal assets are taken from their inactive state and by means of credit fed into the turnover of industrial or commercial enterprises, but they are not committed universally (not in any of the possible forms), but are specifically committed as funds to cover inventories of consumer goods in demand which are forming at the same time, since only then will the subsequent returnability of the credit signify not a mere formal reestablishment of the source of the money which society has borrowed from individuals, but also a coincidence in the processes of commodity sales, repayment of the credit and satisfaction of the demand of individuals thanks to the use of credit as the basis for the movement of goods offered to the public.

As for the actual redistribution,³ from the standpoint of the ultimate result which interests us, specifically creation of conditions for the actual use of savings which are already ready for use, the credit system can be used here only in a single case--the case when the funds have been invested specifically in the production of consumer goods and services, which, moreover, must be ready for sale on the market at the moment when individuals have completed the accumulation of money which the state has been using as resources for credit financing. In other words, we are talking about a kind of anticipation by credit of the future supply of commodities in the broad sense.

In other cases the credit mechanism for the state's use of personal savings, even if we assume that it functions normally, can accomplish only reproduction of the money source of the funds and balance in distribution

within the sphere of the means of production, but by no means can it achieve the required correlation at any given moment between the borrowed money made available from the turnover of enterprises and the possibility of their use by individuals who are the owners of these funds.

And this in turn means that the deep basis of continuity in the process used in analyzing, its unique drive belt, is not the credit form of movement of these funds, but the very mechanism whereby conformity to plan is achieved in the distribution sphere, perspicacity in planning with respect to progress in the formation of resources up to the moment when they are completely ready for a specific use. Assuming proportionality is maintained, the form through which the state uses the available money of individuals (in the form of government appropriation or credit financing) becomes largely a matter of indifference and can be decided in the general framework of formulation of finance-credit policy in each of the specific stages of society's development.

From the standpoint of the specific saver or family taken as the individual unit, savings begin as "available" funds deferred for a longer period than the period between two successive payments of income. This furnishes the conditions which make it possible to form savings. A portion of the "available" resources continues to be savings beyond that limit only temporarily and are savings that do not even cross the boundary between the possible and actual (formal savings), the existence of another portion is rounded out within the annual period, and only a certain portion of the savings goes beyond the limits of 1 year and takes on long-term features. We should emphasize that we are using the term "available resources" in this case only to emphasize the external mechanism for the formation of savings, but in no case not even as a superficial expression of their nature. In our view savings are consequently not the result of a "surplus of income over expenditures in the personal budgets of the workers" or simply "amount which at any particular time does not have a direct purpose in consumption or payment,"⁴ but the balance after consumer needs have been met, and money resources representing, as we will show, real needs satisfied as the contradictory unity of the interests of current and future consumption unfold; moreover, it is not uncommon for these needs for savings to greatly determine the character of the structure of the consumer's budget, rather than the reverse.

It would seem at first glance that only long-term savings could be of interest from the standpoint of reproduction. Thanks to the constant renewability that takes place on an expanded scale when formation of the standard of living is manifestly incomplete, even very short-term savings for each individual family (and indeed not only savings, but also current balances of money) are objectively transformed from the standpoint of the state into a source of additional expansion of production which is essentially constant. Moreover, balances of money for current expenditures, which individually are more mobile than long-term accumulations, may be globally regarded at the level of the national economy--because of their

constant renewability and the extreme urgency of the needs that stand behind them as resources which have the highest stability and their own inherent quantitative characteristics, which are at the same time the characteristics of the volume of the corresponding portion of resources subject to redistribution by the state in the interest of future development of production. Savings for major expenditures and for unforeseen purposes, on the other hand, may take the form of realized demand sooner and, most important, more unexpectedly, especially when the supply of commodities is lively, thereby ceasing to be a resource for redistribution.

Why does worker income break down into that portion which is used and that portion which is saved? What motivates individuals to save? What relationship is there between the objective and the subjective in this process?

Answers to these questions are also largely related to the reproductive aspect of the problem.

The root cause of formation of savings lies in the commodity-money mechanism of socialist expanded reproduction. In our view the process of the formation of savings is based on the contradiction between the present level of development of the personal needs of the workers and the capabilities for production attained in the first phase of communism, which in turn dictate use of the principle of distribution according to work as a factor limiting the possible level of satisfaction of those needs.

Every family, which possesses a certain sum of money that is dispersed in time, in the process of spending the money it obtains objectively faces the problem of ranking its needs which are to be satisfied, of building the simplest models of providing the money to cover upcoming purchases and expenses.

Individuals are able to satisfy some of the needs for which they have the money out of current income, the satisfaction of others takes time for demand to be prepared, i.e., needs have to be reinforced with the ability to pay. On the basis of concrete historical experience the variant in which money is first accumulated has been consolidated as one of the ways of satisfying personal needs. The system of motives (both conscious and to some extent unconscious) predisposing consumers to build up savings serves as a superficial manifestation of this need.

Among the motives for building up savings we must identify the following:

1. The need to satisfy requirements whose price exceeds the limits of the funds left after satisfying the group of most urgent current requirements. Both the requirements and the savings built up to satisfy them are in this case related in their nature to consumption, since they have to do with future acquisition of commodities or future effective demand for services in organizing summer vacations, tourist trips, and so on.

2. The need to build up certain sums of money reserves against all kinds of unforeseen situations, reflecting a fully understandable desire on the part of the consumer to achieve relatively more freedom in selection of his pattern of consumption assuming substantial mobility in the assortment of goods and services offered. This portion of savings can be defined as reserves.

3. The need to provide for children, which is a means of solving the contradiction that arises mainly when young families are being built--the contradiction between the concentrated nature of the needs that arise while the resources for satisfying them are limited. The formation of savings to cover expenditures which bear the imprint of general human and ethnic customs and traditions is closely bound up with this motivation.

4. The desire to maintain the present level and pattern of consumption after retirement for a deserved rest, taking into account the fact that the pension furnishes a lower level of support than remuneration for work.

As we reflect on personal accumulation of money resources from this standpoint, we cannot but come to the conclusion that all savings under socialism need not be rationally motivated from the standpoint of the family. Savings that are rationally motivated are those formed as a consequence of an effective demand that is greater than the level of development of needs and than the possibilities obtained for satisfying those needs (savings as a form of crystallization of unsatisfied demand). In both of these cases savings occur though the saver does not have even a semiconscious need or readiness to save, but "available" money builds up even against the consumer's will when demand is not fully satisfied: the desire to acquire backed up by purchasing power has not been reinforced by the corresponding supply on the part of production.

Comparison of the mechanism in the formation of motivated and unmotivated savings makes it possible to discover a number of additional features inherent in savings as such. As a matter of fact, in analyzing the nature of unmotivated savings their predeterminacy by the inadequate level of development of production as compared to the size of the newly created value which society allocates in money form for purposes of consumption takes on the purest form. If unsatisfied demand is formed, this phenomenon can be the consequence either of direct mistakes in planning or simply (the usual case) of an inadequacy of reserves, equivalent, as we know, to the conscious control of society over the formation of processes in the sector of demand and supply.

Matters are more complicated when savings are formed because of the lag in the level of development of needs (as a rule relative to their average level) behind the possibilities opened up by the payment of money for work.

The development of out-of-the-way regions and radical transformation of the way of life in rural localities are a long-term process not subject to rapid

solution even when a sharp change takes place in proportions between accumulation and consumption. It takes time to accomplish that process, and, most important, it requires a higher efficiency of social production so as to justify the corresponding redistribution of resources without harm to the long-range interests of the process of reproduction as a whole. At the very same time the working conditions and the need to retain personnel have made it a necessity to use in precisely those regions a considerably higher remuneration of labor as an altogether understandable incentive.

In this case savings are inert, i.e., outside the active influence of the saver's will and in their mechanism the exact opposite of the formation of motivated savings. Here the "available" remainder of funds is not the consequence of the realization of the more or less conscious motives of the individual, but rather an automatic and arbitrarily occurring result. This result is predetermined by the insufficiently active supply of goods and services, and from that standpoint these savings can be regarded as forced savings. But this is a fundamentally different type of compulsory saving than in the case with unsatisfied demand. Society must reconcile itself to the formation of these amounts, must reconcile itself because of the level of development of the productive forces which has been attained. With respect to the urgency of eliminating (prohibiting) them, the savings formed because the level of development of needs lags behind the opportunities opened up by remuneration of labor come immediately after the amounts reflecting the unsatisfied demand of the public. The formation of savings motivated by "advance preparation of demand" and "to provide for children" is also in large part a consequence of the inadequate development of the production of consumer goods. Creation of conditions for practical implementation of the Marxist principle⁵ that production should take control of demand by force and subjugate it makes self-evident to society (because of the large opportunities for a vigorous influence on the sphere of labor and higher efficiency from the standpoint of the interests of large-scale production) the gradual approach to the mechanism of anticipating the future full readiness of demand, i.e., complete accumulation of the money for the purchase, by the supply of commodities. Society will advance the supply of material goods, including goods to cover expenditures when young families are being formed, taking advantage of the large stimulative effect that inevitably comes about in this process. Here consumer credit will figure in the role of an ever more active neutralizing agent for the motives of building up savings we have examined. It is also quite likely that a society's maturity for the transition to the full satisfaction of man's needs will in fact be judged on the basis of its ability to make this kind of advance of physical goods and to go beyond the limits of offsetting the public's purchasing power.

The nature of the formation of savings, bearing in mind the impossibility of full satisfaction of the needs of the workers under socialism, become particularly clear: they are built up in a struggle between the interests of current and future consumption or as a result of a consciously arrived at partial limitation of the satisfaction of current needs because of concrete experience of life (motivated savings), the temporary operation of

circumstances which are basically objective in nature and which interfere with manifestation of the economic law of rising needs (savings as a function of underdevelopment of needs themselves), or incomplete satisfaction of demand (personal savings as a form of crystallization of unsatisfied demand).

In the light of what we have said it also becomes possible to make a more specific answer to the question of the conditions under which savings are built up in normal proportions and also the basic limits and possible tendencies of the growth of worker savings.

Taking into account the marginal nature of each of the motives behind the formation of personal savings and the character of the influence exerted on them by the level of development of the productive forces, there is every reason to suppose that as the capabilities of socialist production are revealed more and more, there must be more distinct manifestation of the tendency to extinguish the dynamic nature of the growth of savings and gradually eliminate first those savings which reflect underdevelopment of the very level of needs and then weaken the motives for formation of savings for specific purposes. We in fact forecast a slower growth rate of savings even without fundamental shifts in production by virtue of the breadth of their spread, when it becomes inevitable that use of the savings already built up will replace the formation of new savings. In any case socialism in our view eliminates the unlimited nature of the growth of savings as the prosperity of the people rises.

In the light of what we have said, however, the question inevitably arises of linking the dynamics of savings we have cited in this article to a theoretically sound conclusion concerning the inevitability of the desire to extinguish their growth in the future.

The dynamics of savings in the present progressive stage of their development is the result of the influence of many factors. The factor of expanding opportunities for the formation of savings because of the higher prosperity of the people is certainly first among the factors that provide a proper key to explaining it. Incomplete satisfaction of effective public demand has also had some impact to a certain degree.

In large part the high growth rates of savings have in our view also been predetermined by the fact that opportunities have not yet been exhausted by any means for the "spread" of this process, if we can put it that way.

As a matter of fact, although the 127.8 million accounts opened in savings banks by the end of 1978⁶ seem very impressive as compared to past periods, still if we take into account that a sizable portion of these accounts are what is called the technical remainder, and if we also recall that depositors tend to open several accounts, for which there are a number of reasons, including even such a purely technical factor as the fact that one cannot add to a time deposit, it becomes clear that we are still far from

the situation when every able-bodied citizen in the country or apparently even every family has an account. Development in breadth, other things being equal, is always more dynamic than development based on internal patterns characteristic of the period of universal spread of savings.

And finally, the main thing which makes it impossible for the essential traits of this category to manifest themselves tangibly in the present actual dynamic behavior of savings is the absence of those conditions we have enumerated and which must obtain for it to become possible to mitigate or even completely exclude most of the varied range of savings motives. The limited nature of the capabilities of production in the present stage of its development, a limitation which in our view we can realistically expect to be overcome far earlier than the actual transition to communism, is in the final analysis the general and most profound of these conditions.

Here we should bear in mind that in accordance with Marxist dialectics denial in the philosophical sense occurs not as a linear and gradual withering away, but, on the contrary, as the culminating point of a vigorously rising process, the result of a kind of exhaustion of development of a phenomenon in its real features. It is still, of course, premature to speak of exhaustion of the capabilities of the formation of savings in the present stage of communist construction.

The nature of savings under socialism which we have been discussing makes it unjustified to even ask the question of what are called incentives to encourage personal savings, since they are equivalent to an admission that incentives are required to put a limit on the completeness of current satisfaction of man's needs. The problem lies elsewhere--in creating the conditions under which the formation of savings occurs freely, exclusively on the basis of family preference for future consumption over current satisfaction of needs.

The problem of interest on organized forms of savings is closely bound up with the problem we have just posed. The first thing we should note in this connection has to do with the answer to the question: Is interest under socialism an independent incentive for the formation of personal savings or does it play a more partial role only in the distribution of savings formed on the basis of a number of motives between the cash form and the organized form?

In our view the use of interest as an inducement to build up savings is worse than improper because of the position we have expressed on the problem of what is called stimulation of savings.

Matters are a bit more complicated with the rightness of retaining interest as an incentive for more complete attraction of personal resources already accumulated or which might be accumulated in the organized forms of savings. When the question is put this way, everything depends on the correct answer to two more particular questions: a) how real are the advantages for society of organized savings as compared with hoarding, and b) how attractive

is interest as an incentive when an individual is deciding how to keep his savings?

As for the answer to the first of these questions, aside from what is usually called the "effective organization," which is usually treated in terms of the improved safekeeping of the amounts of money deposited and rationalization of the family budget, reference is also made, and this seems to us the more realistic, to the savings achieved on costs to maintain cash flow by issuing money because the bank can make recurrent (multiple) use of the currency deposited. It would seem to be in a comparison with this benefit that we should determine the maximum permissible limit of the level of the interest rate under socialism, if a specific sociological survey reveals that its role as an incentive for attracting the resources of the public into organized savings actually deserves attention. At present, on a preliminary basis, in view of the motives we have presented for the formation of savings under socialism, we would not exclude the possibility of confirmation that the interest rate has a slight impact on the public's selection of the method of keeping their savings under our conditions. At least the safekeeping of savings which the state guarantees as well as the tendencies in recent years toward providing savings depositors a number of conveniences, especially in bill-paying, could in time raise a serious question about the justifiability of retaining interest on savings deposits, above all on demand deposits.

The portrayal of savings as the result of the process of accumulation by individuals of a portion of current income still does not exhaust all the essential traits of the category unless it is complemented by an analysis of savings as a component of the money supply.

As we know, the savings of the workers represent that portion of the money supply in society which functions as the means of accumulation. In this function personal savings stand in opposition to the money supply which is in circulation and which is performing the functions of means of circulation and means of payment in so-called active turnover. Where is the qualitative and analytical boundary between these elements of the money supply?

This question was laid bare in the most straightforward way when gold was circulating. Savings, as a portion of the money supply free from work in the distribution sphere, have assumed a state of rest and have thereby fallen out of circulation, taking on the form of treasure. As for the amount of treasure, it could increase without limit both in that mechanism which arises out of the needs of expanded reproduction and also that which arises from consumption proper without any sort of damage to the stability of the circulation of money.

When circulation consists of tokens of value (representatives of gold) in the form of credit and paper money, the problem becomes considerably more complicated. Gold certificates can be absorbed by circulation in any amount, subject only, if there is an excessive issue, to depreciation in

relative terms of the amount of gold nominally represented by each of the certificates. This is an absolute principle for an uncontrolled market economy in which no monetary unit can allow itself the luxury of remaining at rest, since this is equivalent not only to its depreciation as a representative (relative to gold) but also to a more tangible depreciation as a result of the continuous rise of prices. Under socialism, though, as experience has shown, this principle undergoes essential modification.

Bank notes, deprived of their own value, are actually not capable of performing the function of treasure. That portion of them which, though superfluous to serving distribution proper, yet reflects, first, the nominal process of the formation of savings (nominal in the sense indicated in exposing the role of personal savings in the process of reproduction), and second, which is equally important, reflects the process society takes into account according to plan in shaping proportions between demand and supply, may with full justification be regarded as money that has really dropped out of circulation and is functioning as the means of accumulation. On the other hand, that part of the money supply which can even empirically be described as remaining at rest for a long time has not been saved in an economic sense if the unity of these two conditions was violated in its formation.

For instance, can we take this view toward the portion of balances in savings accounts, withdrawn from circulation and consequently represented as personal savings, which reflects the unsatisfied demand of the public? It seems to us that the boundary between money in circulation and money which is in personal savings does not run through the document whereby they are legally credited to the savings account, but must be determined by their effective economic role. If behind this money (let it be in the accounts) there is an active demand on the part of a customer seeking satisfaction, then it must be regarded as money in circulation regardless of how long it stays at rest, which in this case is simply forced upon it.

On the other hand a portion of the cash which from the standpoint of formal statistics is in circulation may in an economic sense be saved if it satisfies the two conditions we have stated.

The fundamental theoretical principles we have set forth make it possible, in our view, to deepen our understanding of the qualitative determinacy of personal savings.

By contrast with the preceding discussion of savings, specifically as one of the ways in which the public uses its money income, in which a leveling out of the characteristics of current and long-term money has been noticed, providing a number of authors with the basis for even advancing the principle of an overall analysis of the entire amount of money reserved by the population as a function of personal income (O. L. Rogova), the money aspect inevitably forces us to differentiate our ideas.

As a matter of fact the portion of the money supply which is in the hands of individuals represents money that is serving circulation, that is subordinate in its development to the objective law of the circulation of money, and for that reason it is not legitimate to regard it as savings and as a derivative from income.

Second, it has been observed that even a direct computation of the money supply necessary for circulation by no means solves the problem of discovering the limits on personal savings, since the sum obtained as the difference between the amounts of personal resources (in cash and organized savings--in savings accounts, in the bonds of the 3-percent state lottery loan and in personal insurance policies) and the money supply found to be necessary for circulation by no means reveals an unambiguous surplus of money in circulation, nor the total personal savings, as A. D. Gusakov attempted to represent it with respect to the money supply in the form of cash.⁷ It still has to be broken down into these elements, and the problem must be solved as a whole regardless of whether these resources exist in the form of cash or a noncash form.

In the light of the principles we have already set forth, this principle is quite comprehensible, since it is natural that on the one hand cash in amounts exceeding the needs of circulation still cannot be described as absolutely superfluous (superfluous not from the standpoint of circulation, but in general for the normal functioning of money) unless we first solve the problem of the amount of money in personal savings, and, on the other hand, the real surplus of money may not be confined to the corresponding amounts of cash at all, since the noncash form of existence of a portion of the money resources of individuals (balances insofar as they reflect unsatisfied public demand) still does not signify that they have actually been withdrawn from circulation and dropped out of the sphere in which the law on the circulation of money is operative. In economic terms this portion of money resources, taking the form of savings out of self-denial, is in essence still in circulation.

And finally, a few remarks related to discussion of savings as an element of the personal property of the workers. This aspect is extremely important from the standpoint of discovering the nature of savings as a category in political economy that reflects one of the specific aspects of socialist production relations.

To be specific, from the positions taken by Marxist-Leninist political economy it becomes possible to see behind the range of psychological peculiarities of behavior of the saver that is manifested on the surface the profound economic basis and the system of real needs, which can be derived from production and from attitudes toward production. Only on the basis of the concept of need does the entire doctrine of motivation of human behavior, including a man's behavior as consumer and saver, appear in a fundamentally different configuration than that which is usually given on the basis of bourgeois ideas of the inborn characteristics of human consciousness--greed, thrift, and so on.

From the analytical standpoint the political-economic aspect seems relatively unpromising at first. But when we reflect more deeply, it turns out that it is precisely in this kind of discussion, which seems extremely abstract, of the category of personal savings that we arrive at a criterion that is essentially absolute for evaluating the legitimacy of the formation of savings by the people under socialism. This criterion of the social value of personal savings is their labor character.

At the same time we cannot but see that from this standpoint the problem of personal savings takes on a broader scope, since it leaves the limits of the monetary form. In an economic sense savings for the family are not only money resources, but also investments already made in various types of property, and in this connection it is quite legitimate to look upon outlays, say, to acquire durable consumer goods in a dual light--as a part of consumption to the extent of their depreciation, but the remainder can be looked upon as resources that still have the form of family savings.

In discussion of this aspect we cannot, finally, lose sight of the results of a number of foreign studies which have shown that there are definite patterns in the structure of total family savings and also the dependency of the intensity of the process of accumulation on the base size of savings already achieved.

An examination of the nature of personal savings from three aspects (savings as 1) a form of crystallization of a portion of personal money income for the purposes of satisfying the future needs of the population; 2) as an element of the total money supply functioning as a means of accumulation; 3) as an element of the personal property of the workers) makes it possible to attempt as a kind of logical culmination to formulate the very concept of personal savings, which is one of the most important categories in political economy.

In our view personal savings reflect the relations objectively coming about between society and the public with respect to the acquisition of the goods of life which are subject to distribution in accordance with the amount and quality of labor expended.

The essence of this economic relation lies in the fact that because of the peculiarities of formation of the structure of consumer demand society, in the context of the limited nature of the satisfaction of the needs of its members by the amounts of money for purchases they have earned finds itself confronting an objective process of constant crystallization of a portion of the value of the current fund of the goods of life, which in advance, on a planned basis, is subject to redistribution in the interest of additional development of production or raising the standard of living. The portion of the value of this fund of the means of life which is not intended for current expenditures and reflects the functioning of money as the means of accumulation makes up, then, personal savings.

Consequently, personal savings, which on the surface figure as a consequence of purely internal relations of the family or individual workers with respect to use of the money resources they have earned, are in actuality one of the inseparable elements of the system of production relations, which are based on active use of the commodity-money form of relations.

FOOTNOTES

1. The total of the personal consumption fund in the national income of the last year of each of the 5-year periods and balances of personal savings in savings banks and USSR Gosbank at the end of the respective period.
2. "Narodnoye khozyaystvo SSSR 1922-1972 gg. Yubileynyy statisticheskiy yezhegodnik" [The Soviet Economy 1922-1972. Commemorative Statistical Yearbook], Moscow, Statistika, 1972, pp 373, 486; "Narodnoye khozyaystvo SSSR v 1977 g.," Moscow, Statistika, pp 433, 563.
3. Reference is to redistribution in which there is not only horizontal displacement of money resources from individuals through the bank to the state and back, but also a shift in physical composition of the social product corresponding to this process.
4. Zaytsev, A., "Personal Savings in the System of Socialist Reproduction," EKONOMIKA SOVETSKOY UKRAINY, No 4, 1976, pp 32, 28.
5. See Marx, K., and Engels, F., "Soch.," Vol 4, p 101.
6. "SSSR v tsifrakh v 1978 godu. Kratkiy statisticheskiy sbornik" [The USSR in Figures in 1978. Brief Statistical Collection], Moscow, Statistika, 1979, p 207.
7. Gusakov, A. D., "Planirovaniye denezhnogo obrashcheniya v SSSR. Ocherki teorii, istorii i organizatsii" [Planning the Circulation of Money in the USSR. Essays on Theory, History and Organization], Moscow, Finansy, 1974, pp 196-198.

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BUDGET AND FINANCE

VALOVOY DISCUSSES PROPOSED ECONOMIC MEASURES

Reasons for New Decree

Moscow ZHURNALIST in Russian No 11, 1979 pp 36-38

[The first of a series of 3 articles by Doctor of Economics Dmitriy Valovoy: "To Perfect Means To Move Forward"]

[Text] Before turning to concrete questions, I would like to express the wish that journalists and editors, particularly those directly involved in propaganda of the decree and in the preparation of material on its practical implementation, use the full text of the document, which has been published in a brochure put out by Izdatel'stvo Politicheskoy Literatury and in Issue 32 of the CPSU Central Committee weekly EKONOMICHESKAYA GAZETA. The point being that the remaining newspapers have carried the decree in an abridged form and that for this reason certain concrete explanations and the descriptions of a number of problems have been omitted. But they are sometimes very important for workers of the press.

The first question which has to be distinctly mastered and convincingly explained to the reader is this: What motivated the adoption of the party and government decree and why was it essential to perfect the economic mechanism?

On each occasion that there are organizational changes in the economic system in the Soviet Union, our enemies in the West attempt to "explain" this by a variety of difficulties, while others attribute them simply to a crisis in the development of the economy. The papers written by the defenders of capitalism in the period of the 1965 economic reform were particularly numerous. They expatiated on how "Marxist methods" fail to produce the desired results and how the communists have been compelled to introduce in their countries such capitalist levers as profit, profitability and others.

They naturally remained silent here about the fact that in formulating the principles of socialist management V. I. Lenin particularly emphasized back

in the first years of Soviet power the need for the profitable running of the economy. The bourgeois press still has much to say about the difficulties in the Soviet economy. We do in fact have them, but these are difficulties of growth, not the result of the centralized planning of the economy, as our ideological adversaries attempt to portray matters. This is convincingly attested by the following data.

The average annual rate of increase in national income in the period 1951-1978 in the developed capitalist countries amount to 4.2 percent (including 3.5 percent in the United States) and 7.6 percent in the CEMA countries (including 7.7 percent in the USSR). Industrial output in this period increased 9.2 percent in the USSR and 4.3 percent in the United States, while the increase in the agricultural product was 3.5 percent and 1.7 percent respectively. The labor productivity growth rate in industry per worker constituted 503 percent in the USSR in 1978 compared with 1950 and 249 percent in the United States.

As we can see, the rate of economic development in our country is twice as rapid as in the most developed capitalist power. The Soviet Union is now in first or second place in the world in the production of the most important products. Oil production, for example, amounted to only 14 percent of the U.S. level in 1950, but last year it constituted 136 percent. The picture is similar for many other products: 30 percent and 120 percent respectively for steel, 31 percent and 121 percent for mineral fertilizer, 26 percent and 165 percent for cement and 174 percent for cotton cloth.

An improvement in the economic system in our country is called for by objective necessity and the action of the economic law of the correspondence of the production forces to the nature of production relations. After all, the last time that there were fundamental changes in the system of management of the economy was almost 15 years ago, in accordance with the decision of the CPSU Central Committee March and September (1965) plenums.

Our economy has taken an enormous step forward since then. It is sufficient to say that in 1965 the gross social product amounted to R420 billion, while it was in excess of R990 billion in 1978. National income in this period more than doubled, and industrial production increased by a factor of 2.5 and agricultural production by a factor of 1.4. This rapid growth in the production forces naturally requires a further improvement in production relations and the mechanism of the conscious use of economic laws.

The adoption of the CPSU Central Committee and USSR Council of Ministers decree is the logical continuation of the implementation of the party's economic strategy formulated by the 23d, 24th and 25th party congresses with regard for the particular features of the country's socioeconomic development under the conditions of a developed socialist society.

The next question on which it is necessary to dwell in somewhat more detail in explaining the decree is the increase in the role of forward planning. It is known that the process of the assimilation of inventions throughout the world takes longer than a five-year period, as a rule. Therefore it is essential to have an action program for a more distant prospect than the five-year plan. To this end the USSR Academy of Sciences, the State Committee for Science and Technology and the Gosstroy were entrusted with formulating a comprehensive program of scientific-technical progress for 20 years ahead and with submitting it no less than 2 years prior to the next five-year plan. Taking account of the fact that many inventions and developments meriting introduction in production appear every year, it is recommended that the necessary amplifications be made to this program every 5 years and that it be extended for a new five-year period.

On the basis of this comprehensive program and the socioeconomic tasks determined by the party for the distant future it is proposed that the Gosplan formulate, in conjunction with the ministries and union republic councils of ministers, a draft of the main directions of economic and social development for 10 years--with a year-by-year breakdown for the first five-year period and with determination of the most important indicators for the final year of the five-year plan for the second. This draft will serve as the basis for the formulation of the control figures of the main indicators and economic norms, broken down by year, which should be conveyed via the ministries and departments to the associations and enterprises 1 year prior to the new five-year plan and serve as their initial base for the formulation of drafts of the plan.

In the process of the formulation of their five-year plans the enterprises and associations with sales organizations must determine the product list and assortment of products for the conclusion of economic contracts with clients and suppliers. This procedure will help to insure the combination of cost and physical indicators and liquidate the so-called airy gross output. The essence of the latter concept is that frequently a plan which has been approved in rubles is not supported by a plan for specific product types. In such cases the enterprises try to fulfill the plan through the manufacture of products which are profitable from their viewpoint, but which, however, cannot always be sold insofar as the customer does not need them.

Formulation of the product list quotas at the time of compilation of the five-year plan will make it possible to determine material and labor resources requirements in good time. Association draft plans will come together like streams and rivers in the USSR Gosplan via the appropriate ministries and departments. The draft state five-year plan of the USSR's economic and social development, balanced in all indicators, will be formulated here with regard for these plans and will be submitted to the government 5 months prior to the next five-year plan.

The decree also envisages a change in the procedure of fulfillment of the five-year plan. Currently the ministry, association and enterprise annual plans are frequently not organically connected with the five-year targets.

At the time of approval of the annual positions some enterprises strive under various pretexts for a lowering of the plan. Ultimately this leads to their fulfilling and, at times, overfulfilling the annual plans yet failing to meet the five-year target. An original formula has been thought up for such instances, of which there are many, unfortunately: "five-year plan fulfilled in sum total of annual plans."

In accordance with the new procedure, fulfillment of the five-year plan will be assessed as a cumulative result from the start of the five-year plan, and the annual plan as a cumulative result from the start of the year. Under these conditions the better and more rhythmically the collective works at the start of the five-year plan, the easier it will be for it to complete it. Striving for a lowering of the annual plan will in fact be pointless since it will be necessary to make good the deficit the next year.

The introduction of certificates of production capacity envisaged by the decrees is of exceptional importance. What is the reason for this? The press has carried much material criticizing the "planning from what has been achieved" principle, the essence of which is: the better a collective works, the higher the next quota which it is set. Naturally, the experienced manager always aspired to have reserves for future use. Whoever did not have such frequently found himself in a very difficult position.

This happened to the celebrated Shchekino "Azot" Association. Its collective came out back in 1967 with the initiative: "Fewer Personnel, More Output." The Shchekino method of increasing output while reducing the number of workers is well known not only in our country but also abroad. In 10 years the output volume here increased by a factor of 2.7, and labor productivity increased by a factor of 3.4. Production profitability almost quadrupled, and expenditure on wages per ruble of commodity output fell from 13.9 kopecks to 7 kopecks. And suddenly at the start of the 10th Five-Year Plan this renowned collective found itself among the laggards. Why? Because the level achieved by the Shchekino people in the Ninth Five-Year Plan was made the basis for planning the growth norms in the 10th Five-Year Plan. For this reason the Shchekino people failed to cope with the plan, despite the fact that they raised the indicator of the use of rated capacity to 143 percent in 1976. As a result they forfeited the extra payment which had been paid out earlier and lost the 13-month bonus wage, and there was a reduction in the economic stimulation funds.

To remove such unfairness the new decree provides for the formulation of association and enterprise five-year and annual plans on the basis of economic and engineering calculations and the prevention of the determination of quotas solely on the basis of indicators that have been achieved. To this end it is proposed that in 1979-1980 the ministries and departments compile for each association (enterprise) a certificate on the availability and use of production capacity with an indication of the shift-work coefficient and on the organizational-technical level and specialization of production and also take other data into consideration in the certificate. Such a certificate will be a good basis for scientifically substantiated planning and for overcoming the notorious "from what has been achieved" principle.

A few words about adjustments to the plans. At times association and enterprise managers apply in December to the higher economic authorities for a reduction in their plans, that is, their adjustment to actual fulfillment lest the collective be deprived of the 13th-month bonus wage and the economic stimulation funds be reduced. Last year in the Ministry of Construction, Road and Municipal Machine Building alone the plan for the volume of sold output was changed for 134 of the sector's 157 associations and enterprises, including 44 in December. The labor productivity target was amended for 102 associations and enterprises. One-third of these changes was made in December. In the Ministry of Machine-Tool and Tool-Building Industry the planned quotas for the Tbilisi Machine-Tool Association were changed 49 times in 1978. The plan of the fourth quarter and the year as a whole was lowered by almost 20 percent. There was a reduction in the quota for the manufacture of 57 technically improved machine tools, which should have been supplied for export. Adjustments lead to the plans for the manufacture of products not being fulfilled, but the financial incentive therefor is paid nonetheless.

For this reason the decree provides for the stability of the approved plans and the prevention of amendments thereto in a downward direction and adjustments to actual fulfillment. Ministry leaders who authorize such changes will be disciplined and held materially responsible, and, moreover, the association and enterprise workers will further be deprived of the bonus in full or in part, but by no less than 50 percent.

The press has carried much material on the advantages of specific-purpose comprehensive programs. Now the decree provides for the formulation of specific-purpose comprehensive scientific-technical, economic and social programs and also programs of the development of individual regions and territorial-production complexes as a most important component of the state long-term plans of economic and social development. Among the priority programs of such a kind for the immediate future it is planned to compile programs for saving fuel and metal, developing the Baykal-Amur Railroad zone, reducing the application of manual labor and increasing the production of new consumer goods.

The decree records that it be considered essential to increase the responsibility of the USSR Gosplan and the ministries and departments for the balanced nature of the plans of economic and social development. It is a far from simple matter to balance the plan nowadays. We have shown about that the country's economic potential has more than doubled and that there has been a sharp increase in and complication of interfacility economic relations just since 1965. Technical progress is leading to the extension of the specialization and cooperation of production. It is sufficient to say that at many enterprises the cost of parts and semifinished products obtained as supplies in accordance with economic contracts constitutes 60-80 percent of the cost of their manufactured end product. It can only be said that a machine lacking just one belt or pinion cannot function.

There should be a continuous improvement in the level of balancing work. It is deemed essential to compile balances for a consolidated product list

even in the five-year plans and to compile balances for a detailed list of products in the annual plans. The decree plans the completion, in the main, in 1980 of the transition of the associations (enterprises) to direct long-term economic relations. The USSR Gosplan has been entrusted with developing the guaranteed comprehensive provision of the enterprises with material resources on the basis of contracts and completing in the 10th Five-Year Plan, in the main, the transition to the centralized delivery of products to the customers in accordance with coordinated schedules of common-use transportation.

The decree devotes a great deal of attention to the more rational combination of sectorial and territorial planning for the purpose of an improvement in the balanced nature of the plans and the comprehensive provision of production with the essential resources. Currently the plans of the economic and social development of the union republics are compiled merely for the associations and enterprises under their jurisdictions. But the plans of numerous enterprises under the jurisdiction of various union ministries have been approved in Moscow. This has frequently led to the creation of disproportions in the provision of labor and material resources in certain republics and economic regions. For an improvement in the balanced nature of the plans the ministries and departments should notify the union republic councils of ministers of the control figures and basic indicators of the drafts and approved plans of the associations and enterprises of union subordination located on their territory. These indicators will be incorporated in the five-year and annual plans of the union republic, which will permit the comprehensive territorial development of the production forces.

The choice of the system of directive indicators by which executants are notified of the plan quotas and the economic activity of the enterprises, associations and ministries is evaluated as of importance for a rise in the level of planning. The 25th party congress noted the need for "an improvement in the entire system of indicators forming the basis of an evaluation of the activity of the ministries, association and enterprises, primarily of the efficiency and quality of their work." In the light of these congress directives the decree outlines fundamental changes in the system of economic indicators, which will be dealt with in the next talk.

Improved Economic Indicators

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[The second of a series of 3 articles by Doctor of Economics Dmitriy Valovoy: "Indicators: Rubles, Tons, Meters..."]

[Text] The explanatory dictionary of the Russian language says that "indicator" is a criterion or data making it possible to judge the status at a certain moment and the dynamics of a process or phenomenon. Indicators are particular and summary. The more intricate the process or phenomenon, the more indicators are needed to determine its positive and negative aspects.

How, for example, to most reliably evaluate the multifaceted and polygonal activity of a production collective? Many attempts have been made recently to find an all-purpose (main, basic) indicator of an evaluation of the production-economic activity of enterprises and associations. As might have been expected, they have not been crowned with success. This can be done most objectively only with the aid of a system of indicators. But, as the 25th party congress observed, the current system of indicators does not fully conform to modern requirements. How is this expressed and what measures does the CPSU Central Committee and USSR Council of Ministers decree on an improvement in the economic mechanism outline for an improvement in the system of indicators?

I

"Expensive...Means Profitable!" was the heading of a letter published in PRAVDA from M. Gromyko, a Leningrad designer. The author told how the design office in which he works had created various hardware assemblies from polymers. They are considerably less expensive and more convenient and last longer than metal assemblies. But enterprises are unwilling to replace the expensive products with the inexpensive ones.

"We proposed two variants of a new fiber of approximately identical quality," Prof Z. Rogovin, doctor of technical sciences, three times winner of the USSR State Prize and honored figure of RSFSR science and technology, wrote the editors. "One type of this fiber would be cheaper than the conventional viscose fiber, while the other would be 15-20 percent more expensive. The first variant, which was more efficient and profitable from the viewpoint of the public interest, was unanimously rejected by the plant management. Manufacture of the cheap fiber would lead to a reduction in the production volume and labor productivity indicators. Who should agree to this!"

In letters to the editors readers recount instances of the artificial inflation of the cost of a manufactured product. There is still a considerable amount of metal included in a product's prime costs which ends up as shavings. Instances are cited of new machinery increasing labor productivity only 15-20 percent while its weight and price increase by a factor of 1.5-2. Examples are given of irrational shipments of goods and raw materials--transportation expenditure is sometimes a pretty good helping hand in fulfillment of the plan in rubles. All this confirms for the umpteenth time the urgency of the directives of the 25th CPSU Congress concerning an improvement in the entire system of indicators forming the basis of an evaluation of the activity of ministries, associations and enterprises.

"The achievement in the interests of society of the greatest results with the least expenditure," the CPSU Program says, "such is the incontestable law of economic building." This law permeates the CPSU Central Committee and USSR Council of Ministers decree on a further improvement in the economic mechanism, which outlines a number of fundamental measures aimed at raising the level of planning. Certain of them were mentioned in the first talk

devoted to this most important document. Today we will describe the changes which it is planned to make in the system of indicators of planning and of an evaluation of the work of economic units.

What is the basic shortcoming of the current system of indicators?

Let us begin with the indicator of gross output. As many critical articles have probably been written about this than about all the others together. They are justified, in the main, but we cannot agree with the assertion that the application of this indicator was a mistake. Gross output is a summary indicator which incorporates all expenditure connected with the production and sale of a product in cost terms at all levels of management. It serves as the basis for determining total production and its dynamics and structure. Therefore it will be impossible to manage without it as long as money-goods relations exist. It will continue to be used as a reference indicator for the planning and analysis of the development of social production. Attempting to replace it in this role means engaging, in our view, in a labor of Sisyphus. This indicator was also employed successfully at one time to evaluate the work of production collectives. But it gradually became increasingly less suitable here. Why?

Earlier the proportion of "others'" labor in the manufactured product was negligible and, the main thing, stable. Many products were manufactured for years and decades. Innovations in the assortment and appreciable changes in the structure of the production costs were not a frequent phenomenon; they were timed for the next plans, as a rule. Under the conditions of technical progress the renewal and expansion of the product list and the assortment and also changes in the structure of expenditure on the manufactured product occur constantly.

Currently the proportion of others' labor constitutes more than half the cost of their manufactured final product at many enterprises. The gross product amounted to R211.33 million at the Chelyabinsk Road-Building Machinery Plant imeni D. Kolyushchenko in 1978. But this amount includes the cost of tractors and tow trucks obtained from the Chelyabinsk Tractor, the Zhodino Motor Vehicle and the Kurgan Truck Trailer plants. It amounted to R150.09 million. If we subtract these, the plant accounts for only R61.24 million, that is, less than 30 percent. But this amount includes the cost of raw materials and goods for the manufacture of its own products--mounted equipment, spares and consumer goods and also the cost of fuel and power spent on the manufacture of road-building machinery.

The fluctuations in the structure of the prime costs of different products are also very significant. Wages account for almost 25 percent and raw materials and goods 30 percent of the costs in the manufacture of the "Fiev-4" camera, for example. There are no components and intermediate products. A different situation has evolved in the manufacture of the "Chayka-206" television receiver. Purchased components account for more than 40 percent and wages approximately 15 percent of all production expenditure.

The country produces millions of products, each with its own structure of expenditure. Only the main types are planned for the enterprises from above here, while the overwhelming majority of goods is manufactured in accordance with economic contracts and the orders of trade. Taking into consideration and monitoring under these conditions the structure of expenditure for product types and the enterprise as a whole is a very complicated, economically inexpedient business.

The CPSU Central Committee September (1965) Plenum observed that the gross output indicator "does not orient enterprises toward the manufacture of products really essential to the national economy and the population." It was removed from the system of directive indicators. A new indicator was introduced in its place: the volume of sold output. It has a number of merits and advantages compared with its predecessor, but work experience of more than a decade has shown that this indicator does not remove the basic shortcoming of gross output.

What is sold output? It is the part of gross output which has been received by the client and money for which has been paid into the supplier's current account. The bigger the volume of gross output, the more will have been sold. In other words, there is a direct dependence between them. Just as the volume of gross output, the volume of commodity and sold output incorporates together with "in-house" labor others' labor in the form of the cost of materials and products received in accordance with cooperative supplies. Furthermore, it has to be emphasized that, as prior to the 1965 reform, the growth of labor productivity and the amount of the wage fund are determined on the basis of gross (commodity) output. All this prevents us obtaining reliable data on a given collective's real contribution to the final product it has produced and the labor productivity level achieved here and does not contribute to an increase in the economic efficiency of production.

The level of the concentration and cooperation of production which has been achieved demands a different approach to an evaluation of the work of economic units. "The revolution in science and technology," the report of Comrade L. I. Brezhnev, general secretary of the CPSU Central Committee, at the 25th CPSU Congress observed, "demands cardinal changes in the style and methods of economic activity."

In accordance with the new CPSU Central Committee and USSR Council of Ministers decree, a new indicator--normative net output--is being introduced for an evaluation of the work of economic units at all levels from the enterprise through the ministry. What are its distinguishing features and advantages compared with the above-mentioned indicators?

Net output is a value newly created by the collective of a given enterprise (wages plus profit). Its fundamental difference from gross, commodity and sold output is that it does not include the cost of past labor, that is, the labor embodied in raw materials, goods, fuel, electric power and products obtained from subcontractors in the form of cooperative supplies. To

determine net output it is necessary to subtract the material expenditure on its production from gross output. This method is called the calculation method. Actual net output is obtained. Its application for planning and evaluating the work of enterprises is, as numerous experiments have shown, inadvisable. And this is why.

First, current-basis efficiency in management and control is disrupted. This calculation can only be made after the compilation of a statement of account, that is, 12-14 days after the end of the previous month. Second, the calculation is complex and not entirely accurate. Integrated items--"shop expenditure," "expenditure on equipment maintenance and operation," "general plant expenditure" and others--account for a considerable proportion of the structure of the prime costs of enterprise and association products. These items amalgamate both material and labor expenditures, without making the distinction. Such distinctions are made as necessary for analysis, but this is a very laborious business and had, additionally, to be undertaken monthly.

Therefore, relying on the data of economic experiments, the CPSU Central Committee and USSR Council of Ministers decree on the economic mechanism proposes the use not of actual but of normative net output. The methods guidelines on the procedure of its formulation and application record that this indicator is used to determine the dynamics (growth rate) of the physical volume of production and labor productivity and for planning the wage fund and monitoring its use.

Normative net output is determined on the basis of norms representing a part of the wholesale price of a given product incorporating wages, deductions for social security and profit. The procedure and time limits of their formulation and approval are analogous with the principle of the approval of wholesale prices and should be carried out by the same authorities. The norms reflect the average sectorial expenditure of live labor, which is determined on the basis of progressive labor-consumption norms.

Thus the normative net output indicator reflects merely an enterprise's own expenditure on the product it produces. Under the new conditions the production collective will not be able to construct its own well-being from others--an increase in purchased products, an increase in the product's materials-intensiveness and the use of more expensive materials. This is the principal advantage of this indicator.

II

To win the cup or become champions of the country in football or hockey it is necessary to collect the most points. Wins, wins and even more wins are needed for this. In the economy it is necessary for the winner of socialist competition to fulfill and sometimes overfulfill the plan in rubles. Under the new conditions this is only possible given fulfillment of the quotas in tons, units and meters, that is, the entire product list in physical units.

In propagandizing the decree on the economic mechanism attention should be drawn to the fact that a number of provisions of this document is devoted to increasing the role of physical indicators in an evaluation of enterprise and association activity. These indicators have been employed at all stages of socialist building. However, their role has markedly diminished recently. Administrative measures involving a partial deprivation of their bonus may be instituted against enterprise managers upon fulfillment of the plan for sold output and underfulfillment of the product list quota. At the same time, upon nonfulfillment of the plan in rubles there is a deterioration in all the basic indicators and a reduction in the wage fund. Therefore in the race for profits enterprise managers sometimes take the route of the overfulfillment of quotas in products which are profitable for them and, thereby failing to fulfill the product list quota, make ends meet in the sales volume.

Thus at the start of the 10th Five-Year Plan the people's control authorities received many complaints about the enterprises of the All-Union Association for the Treatment of Nonferrous Metals concerning the serious violation of contractual deadlines for supplies and the nonfulfillment of commitments with respect to many items on the product list. Numerous instances of the nonfulfillment of orders were established in the course of a check, yet at the same time the enterprises were coping successfully with the sold output plan. How did they manage this?

They were producing thousands of tons of profitable products--increased-gage nonferrous wire and brass and copper large-diameter pipes--and making all this part of a future account as the load for small-diameter and small-gage products. But 33 norm-hours are expended on the production of 1 ton of 5 x 1-mm copper pipes, while 184 norm-hours are expended on the production on pipes with a gage of 1.2 x 0.35 mm, that is, more than five times as many. Having considerably overfulfilled the sold output volume and gained prize-winning positions in the sector and the city, the Syktyvkar Timber Complex paid out tens of thousands of rubles in fines for failing to supply customers with certain products in sufficient amounts. Those which were unprofitable from the producer's viewpoint, of course.

The new decree on an improvement in the economic mechanism outlines measures to insure fulfillment of the quotas for the entire product list. Of course, current accounting of fulfillment of the plan in physical terms is no simple matter. After all, many enterprises produce hundreds and thousands of varieties of the most diverse products. For this reason it is essential to have a summary indicator. The decree envisages the use of the sold output indicator for this. Two fundamental changes have been made to it to make it more effective and objective.

First. The sold output volume will incorporate the cost only of those products which have been stipulated in economic contracts and schedule orders. Underfulfillment of the quota for individual items of the product list and the assortment will lead to disruption of the sold output plan since overfulfillment of the quotas for products which are profitable for the supplier but which have not been stipulated by contracts and orders are not to be taken into consideration.

And second. A serious shortcoming of this indicator is removed. Its application currently sets off a chain reaction of nonpayments. It relatively frequently happens thus: the client has received the product on time and already made use of it, but has not paid for it because of a lack of funds. But if the supplier does not receive his payment on time, he cannot settle accounts with his subcontractors. And so the nonpayments snowball along the entire chain of interconnected enterprises. To insure the timely settlement of accounts the decree stipulates that when the client lacks funds to pay for the products which he has received in accordance with a contract, it is paid for by the Gosbank or Stroybank through the extension of credit to the purchaser bearing an interest rate of 5 percent which he is obliged to pay off within 60 days. Upon the expiry of this period the credit is extended at a higher rate of interest.

The strengthening of contract discipline is assigned a big role in the fulfillment of the physical indicators. The CPSU Central Committee Report to the 25th congress pointed out: "It is necessary to close up all loopholes which still permit remiss managers to walk in the ranks of the pacesetters, despite the violation of contractual obligations...." The new decree proposes making the evaluation of the results of enterprise and association economic activity and also their economic stimulation primarily dependent on the fulfillment of supplies with respect to the entire product list and assortment and within the deadlines stipulated by the economic contracts. Economic sanctions for the violation of contractual commitments will now be applied obligatorily and without mutual deductions. The mutual relations of the production collectives and supply organizations should be constructed on the basis of economic contracts and mutual financial liability. The decree also envisages an increase in the financial liability of the transportation organizations for the nonfulfillment of concerted shipment plans.

In the study and propaganda of the CPSU Central Committee and USSR Council of Ministers decree on the economic mechanism particular attention should be paid to the labor productivity indicator. This is a most important high-performance indicator. Labor productivity, according to V. I. Lenin, is most important and most essential for the victory of the new social production. We still lag behind the developed capitalist countries in the level of labor productivity in industry, but we outstrip them almost twofold in its growth rate. The development of technical progress is accelerating labor productivity growth, but at the same time complicating the methods of its most reliable determination. The shortcomings of the gross (commodity) output indicator, which we dealt with above, also exert a negative influence on the evaluation of the labor productivity level. Judge for yourselves. A basket centrifuge produces 45 cast iron pipes an hour. But these pipes could be of a diameter of 35 mm or 100 mm. The first weigh 500 kilos, the second 1,130 kilos, and the sold output volume is R70 and R132 respectively. Consequently, with identical labor expenditure labor productivity is almost twice as high in the second case.

A further example. Fifteen norm-hours have to be spent on the production of 2 tons of 35 x 1.5-mm L-63 brass pipes, while 64 norm-hours have to be spent

on the production of 1 ton of 10 x 1-mm pipes. As a result output per worker per shift in the first case constitutes R548, but R152 in the second, that is, almost four times less. For the labor productivity level is currently determined by dividing the cost of the gross product by the number of workers. Under these conditions the greater the use of others' labor and costly materials, the higher the labor productivity will be at a given enterprise. It is not surprising that under this system enterprises try to overfulfill the plan thanks to large-diameter pipes, increased-gage wire and others.

For the purpose of a more objective determination of the labor productivity level the decree proposes that this indicator be computed on the basis of normative net output. This fundamental change in the method of computing the labor productivity level is of enormous practical significance for an increase in the economic efficiency of social production and the more rational combination of public, collective and personal interests. More favorable conditions are now being created in the production collectives for fulfillment of the quotas for the entire product list.

Under these conditions there is also a marked increase in the role of such labor indicators as work hours and norm-hours. Expenditure of work hours per ton of grain, coal and other types of product permits a more objective comparison of the efficiency of their production in different regions. Norm-hours are now a very prevalent labor indicator. For the most objective evaluation of different versions of new machinery a comparison of their labor-intensiveness is very valuable. It is sometimes the case that a machine is somewhat less costly than analogous models but more labor-intensive.

The labor intensiveness of the manufactured product is the scientific basis of determination of the wage fund. Gross (commodity) output also has the final say in determination of the latter currently. The wage fund is established as a certain percentage of total production in rubles. This is an essential reason why enterprises avoid producing the most labor-intensive types of the product stipulated by the quota in physical terms.

The efficiency of the use of such indicators as man-hours and norm-hours is corroborated by the experience of many associations. In particular, great experience of the use of labor-intensiveness indicators in planning and monitoring the fulfillment of quotas has been accumulated in the capital's "Dinamo" Association imeni S. M. Korov. Since 1966 every worker here has had a personal plan for an increase in labor productivity measured on the basis of the normative wage. It is determined for each unit of output with regard for its labor-intensiveness in norm hours.

With regard for accumulated experience the CPSU Central Committee and USSR Council of Ministers decree introduces a new principle of determining the wage fund. It must be directly dependent on the labor-intensiveness of the manufactured product. Only the wage norm per ruble of normative net output will be determined in the new system of indicators. The fund will be the greater, the higher the labor-intensiveness of the manufactured products.

The race for products which are materials-intensive but which require little labor will be pointless since it will lead not only to a decrease in the wage fund and a fall in the labor productivity level but also to a reduction in the production volume.

Thus the CPSU Central Committee and Council of Ministers decree provides for the more rational combination of physical and labor cost indicators on the one hand and quantitative and qualitative indicators on the other. This will promote fulfillment of the plan in physical terms for the entire list of products essential for the fullest satisfaction of the people's requirements.

Capital Investment Priorities

Moscow ZHURNALIST in Russian No 1, 1980 pp 27-30

[The third in series of 3 articles by Doctor of Economic Dmitriy Valovoy: "Increasing the Efficiency of Capital Investments"]

[Text] R1,833,000,000,000--this is the sum total of capital investments in our country in the period 1918-1978. Construction has been undertaken along a particularly broad front since 1965. It is sufficient to say that the national economy's fixed capital had increased by R1 trillion in 1979 compared with 1965. This increase is almost double the value of the fixed capital created in all the previous years of Soviet power. Such an impressive scale of construction naturally demands the most unremitting attention to an increase in the efficiency of the use of capital investments. A special section of the CPSU Central Committee and USSR Council of Ministers decree on the economic mechanism is devoted to this problem. The following talk devoted to this most important document will also deal with this problem.

A complex for the production of textile capron thread was to have been commissioned in 1977 at Zhitomirskaya Oblast's biggest construction project. The plan at this facility was fulfilled...27 percent, while the targets for facilities not destined for immediate startup were overfulfilled three-fold. The picture was even worse in 1978. Fulfillment of the target for the facility destined for advance startup amounted to 58 percent, while the targets for the facilities not destined for immediate startup were overfulfilled twentytwo-fold. As a result the production of products essential to the economy has been delayed by over 3 years. But these times are sometimes even longer. According to USSR Gosplan data, in 3 years of the 10th Five-Year Plan the commissioning of fixed capital overall fell R17 billion short of the quota in fulfillment of the plan for the assimilation of capital investments.

The question arises: why are the construction workers systematically disrupting the deadlines for the handover of facilities while successfully fulfilling the plans for the volume of construction and installation work? Why are they beginning increasingly new projects without having completed earlier ones? Why are the plans at facilities due for immediate startup very often not fulfilled while they are overfulfilled at facilities due for later startup?

It is difficult to find a simple answer to such questions. But this is caused to a considerable extent by shortcomings in the current system of planning and evaluating the work of the contracting organizations and also by the system of the economic stimulation of construction production. What is the essence of these shortcomings and what measures to eliminate them are outlined in the CPSU Central Committee and USSR Council of Ministers decree "An Improvement in Planning and an Intensification of the Impact of the Economic Mechanism on an Increase in Production Efficiency and Work Quality"?

The very first paragraph of the section of the decree "Measures To Accelerate the Commissioning of Production Capacities and Facilities and Increase the Efficiency of Capital Investments" proposes that the amount of incomplete construction be brought to the level of the established norms in the next few years. This is understandable. After all, the aspiration to begin increasingly new projects before having completed old ones leads to an appreciable lengthening of the duration of construction and, ultimately, to the freezing of huge resources for many years. This tendency has strengthened in the 10th Five-Year Plan. In the Ninth Five-Year Plan the amount of incomplete construction increased from 73 percent in 1970 to 75 percent in 1975 of the annual amount of capital investments. In 1978 the amount of incomplete construction constituted R99 billion or 85 percent of the annual amount of capital investments.

For a reduction in the duration of the construction of projects and for their on-schedule and ahead-of-schedule commissioning the decree envisages a number of fundamental changes, many of which have already been checked out experimentally in practice. It is planned to increase bonuses for the on-schedule commissioning of production capacities, and up to 3 percent of the estimated cost of completed construction and installation work will be allocated for these. Upon a reduction in the normative duration of construction the general contractor will receive from the client 50 percent of the profit envisaged by the plan for the period by which the facility was handed over ahead of schedule. These funds will go into a fund for the economic stimulation of all organizations which participated in the construction.

The idea of the economic stimulation of the accelerated commissioning of facilities is reflected in the legislative instruments and sets of instructions being adopted in the light of the new decree. Thus in accordance with the recently adopted "Regulations on the Payment of Bonuses for the

Commissioning of Production Capacities and Construction Projects" (see EKONOMICHESKAYA GAZETA NO 42, 1979), upon a reduction in the time taken to commission a project of no less than 30 percent against the norm, the bonus increases by half, and upon a reduction in the time of 20 and 10 percent, it increases 25 and 10 percent respectively. Here the amount of the bonuses for the commissioning of projects constructed on compensation basis increases by a factor of 1.8. There are also sizable incentives for work quality.

Upon the handover of a project with an "excellent" evaluation the amount of the bonus increases by 10 percent, with a "good" evaluation it remains the same as provided for in these regulations and with a "satisfactory" evaluation it is reduced 20 percent.

The decree on the economic mechanism proposes the formulation of measures to improve the structure of capital investments, which is exceptionally important for an increase in their economic efficiency. Particular attention is paid to an increase in the proportion of expenditure on equipment. In the First Five-Year Plan the proportion of this expenditure in the structure of capital investments constituted only 12 percent and that on construction and installation work 83 percent, but in the Ninth Five-Year Plan the figures were 45 percent and 45 percent respectively (other expenditure constituted 10 percent). The experience of many associations shows that the proportion of the active part of production capital--operating machinery and equipment--can be considerably increased.

An increase in the proportion of capital investments for expanding work on the retooling and modernization of operating enterprises is particularly urgent. The new decree grants association and enterprise managers the right to approve, within the limits of the allocated capital investments, documents for retooling work irrespective of the total estimated costs of the work. Furthermore, the construction and installation organizations in whose plan the amount of modernization work constitutes 50 and more percent will be put in a higher group than the one which they are in currently for the remuneration of the management personnel, while the salaries of workers of the organizations of the first group will be increased 10-15 percent.

The planning of operating production and new construction as a unified whole, which is envisaged by the decree, will contribute to the acceleration of retooling and modernization--the most efficient use of capital investments. Under these conditions capital investments should be earmarked not merely for a project but for a preplanned increase in the volume of output and services. In other words, it is a question of a multivariant choice of path: how to more rapidly procure an increase in this product or the other with the least expenditure.

The decree on the economic mechanism goes on to propose that the ministries and republic councils of ministers complete the introduction of the settlement of accounts between clients and contractors for fully completed projects in 1981. There will be a considerable increase in the role of credit under these conditions. The construction workers' expenditure prior to the planned

deadline for the handover of the project will be covered by the bank from the resources of the client; when the deadline is passed, the credit will continue, but with a higher rate of interest. The gradual transition to the construction of enterprises and various projects thanks to Stroybank credit in the amount of full estimated costs with their "turnkey" handover to the client is deemed expedient in certain sectors. In the course of an experiment 19 of the 27 projects being erected by this method were handed over on schedule and ahead of schedule. At 10 enterprises the saving against the estimated costs amounted to approximately R1 million.

For the purpose of accelerating the commissioning of production capacity and increasing the efficiency of capital investments the decree provides for a number of changes in the system of indicators of planning and evaluating the work of the contracting organizations. Beginning with the 11th Five-Year Plan, the basic indicator of an evaluation of the work of the construction workers will be the commissioning of production capacities and projects, including an increase in capacity thanks to the retooling and modernization of operating enterprises.

In principle, this indicator is now new. The CPSU Central Committee and USSR Council of Ministers decree of 28 May 1969 "An Improvement in Planning and Capital Construction and an Increase in the Economic Stimulation of Construction Production" stipulated that upon the transition of construction and installation organizations to the new system of planning and economic incentive the basic indicator of an evaluation of their work should be the commissioning of production capacities and projects in accordance with the approved plans and itemized lists. But, as a decade of experience has shown, the said indicator has failed to exert due influence on the results of the construction workers' activity. Why?

I believe that this is explained to a considerable extent by the fact that the summary indicator was the amount of construction and installation work in rubles, that is, the volume of gross output. True, the 1969 decree stipulated that it was essential to plan and compute the amount of construction and installation work "for facilities or stages to be completed in the plan year and to be handed over to the client in accordance with their estimated costs." But this qualification permits the construction workers to divide the construction project into facilities or stages, depending on the situation actually taking shape. And since the client cannot choose for himself another contractor, he is forced to accept his terms. The "dam" in the path of the construction workers' race for the ruble proved insufficiently strong. While the load on it proved very considerable. Judge for yourselves.

The growth rate of the production volume and labor productivity, the amount of the wage fund, the sum total of profit and, to a considerable extent, the deductions into the economic stimulation funds are determined on the basis of the gross output indicator. The results of socialist competition and moral and material incentives largely depend on the above indicators. This, in our opinion, urges the construction workers on to a constant search for new large-volume work and causes delays in the handover of finished

projects. For finishing and various kinds of cosmetic work is highly laborious and requires considerable expenditure on wages, while the increase therefrom in the overall volume is slight.

What does the new decree envisage for strengthening the "dam" restraining the race for volume in rubles?

A new value indicator--the amount of commodity construction output--will be introduced in the 11th Five-Year Plan for evaluating the work of the construction workers. It has been tested experimentally in two of Belorussia's construction ministries--the Ministry of Industrial Construction and the Ministry of Installation and Special Construction Work--in the Lithuanian Ministry of Construction and in a number of other contracting organizations.

In 3 years of operation in the new manner in the Belorussian Ministry of Industrial Construction more than 2,700 large-scale projects were commissioned, including 621 ahead of schedule. The average annual growth rate of commodity construction output constituted more than 10 percent. And, what is most important, it outstripped the growth rate of the volume of construction and installation work. The average duration of the construction of the projects was reduced by 16 percent. In 1976 the volume of work done at facilities due for immediate startup amounted to 67.7 of the ministry plan and had risen to 81.5 percent in 1978. The amount of incomplete construction was brought to the level of the norm.

Good results were also obtained in Lithuania in the 2 years of work under conditions of evaluation of the work of the contracting organization in accordance with the new indicator. In 1978 the ministry commissioned 20 more projects than in 1976. The amount of incomplete construction was reduced by R23 million, and the number of projects being installed simultaneously was reduced by 8 percent. But if the results of the Lithuanian construction workers are evaluated in accordance with the old method, that is, in accordance with "gross," theirs would be an unenviable fate. In 1978 their "gross" was R32 million less than in 1976. Approximately two-thirds of this decrease was accounted for by the reduction in incomplete work.

The principal distinguishing feature and, perhaps, the chief merit of the "volume of commodity construction output" indicator is the fact that it incorporates only the cost of construction and installation work for the enterprises, complexes and facilities handed over to the client and made ready to manufacture products or render services. In other words, the formal division of a construction project into stages and facilities is ruled out under the new conditions, and the main point of reference is the end product. For the construction workers this is a facility capable of producing the commodities envisaged by the plan.

At the same time it should be said that even under the conditions of the application of the "volume of commodity construction output" indicator the load on the "dam" is still sizable. This also is corroborated by the work experience of the organizations participating in its experimental verification. Thus the Lithuanian construction workers' reduction in the number of

projects under construction simultaneously and the concentration of the main forces on projects due for immediate startup led to a reduction in the amount of "gross." This entailed a reduction in the indicator of the labor productivity level and a decrease in the wage fund and profits. As a result the ministry was almost R1 short in contributions to the material incentive fund. In order to maintain the experiment the union ministry was forced to plan for the Lithuanian construction workers to obtain a profit in 1979 R10 million less than in 1977.

The experiment showed that the distribution of funds for wages depending on the volume of commodity construction output also lacks proper scientific substantiation. Interviewed on the results of the experiment, I. Mozolyako, minister of industrial construction of Belorussia, said at the end of 1979:

"The practice of the distribution of funds for wages depending on fulfillment of the commodity construction output plan has not, to be blunt, justified itself. The wage fund is planned in accordance with the volume of construction and installation work and is distributed to the workers for the work done, yet funds are obtained from the bank depending on fulfillment of the commodity construction output plan. In the even of the noncommissioning of a project on time here, a huge overexpenditure of the wage fund immediately arises, although in reality this is not the case considering the amount of work done. In our opinion, funds should be distributed depending on fulfillment of the plan for construction and installation work prior to the transition to planning the wage fund in accordance with net output."

The accelerated commissioning of projects and a reduction in incomplete construction is beneficial to society and considerably increases the efficiency of the use of capital investments. Yet, as we can see, the construction workers suffer from this both morally and materially.

How to remove the contradiction?

The experience of the application since 1979 of the indicator of the commissioning of production capacity envisaged by the plan and the 3-year experiment of the use of the "volume of commodity construction output" indicator enable us to conclude that the introduction merely of individual new indicators in the old system does not produce the desired results.

The commissioning of projects within the established period is a highly necessary indicator. It is perfectly natural that it is retained in the new decree on the economic mechanism also. But this is a physical indicator in its economic content. It performs the role of the "main types of output in physical terms" indicator which is employed in industry and which cannot be a comprehensive summary gage. For this reason another indicator--volume of construction and installation work in rubles--was also retained in construction in 1969. The other economic indicators of the work of the contracting organizations depended mainly on this indicator, which, strictly, also predetermined the construction workers' race for the ruble. The "volume of commodity construction output" indicator will be applied in the

11th Five-Year Plan instead of the "overall volume of construction and installation work." It corresponds to the volume of sold output in its economic content. However, it must not be forgotten that they both represent the sold part of gross output and, naturally, cannot serve as a comprehensive summary indicator of the state and dynamics of the production volume and labor productivity.

For this purpose, as also for determination of the wage fund, the volume of gross output must be employed, as before.

It is precisely this fact which preserves in the construction workers to a considerable extent the aspiration to chase after the ruble. As distinct from industry, it is not planned to apply the normative net output indicator in construction at the start of the new five-year plan. In this connection the decree on the economic mechanism entrusts the USSR Gosstroy, with the participation of the construction ministries, with implementing measures in 1979-1980 to prepare the estimate-normative basis for the gradual transition in the 11th Five-Year Plan to planning labor productivity in the construction and installation organizations in accordance with normative net output or another indicator more accurately reflecting the changes in labor expenditure and the wage fund in accordance with the norm per ruble of output (in accordance with the indicator applied for planning labor productivity).

There is already definite experience of the use of the normative net output indicator. It has been applied since 1973 in a number of construction organizations--Trust No 38 of the Glavzapstroy, the Vil'nyus Housing Combine, Trust No 10 of the Belorussian SSR Ministry of Industrial Construction, the "L'vovzhilstroy," the "Mosenergostroy," the "Vologdastel'stroy," the "Ukrelevatormel'stroy" and others. As of 1976 some 24 enterprises of the Glavmospromstroymaterialov began to plan and evaluate their work in accordance with normative net output, and all of the main administration's 84 enterprises, which employ 70,000 people, have been using this indicator since 1978. There has been a marked reduction in the products' materials-intensiveness in the course of the experiment. In 3 years the main administration's enterprises saved 64,000 tons of cement, 9,000 tons of metal, 12,300 tons of conventional fuel and 16 million kilowatt-hours of electric power for a sum total of R5 million. Whereas prior to the start of the experiment the enterprises aspired to produce heavy and costly products ahead of schedule, delaying and, at times, even disrupting the production of many product types which were unprofitable for them, the situation has altered abruptly under the new conditions.

The acceleration of the commissioning of projects largely depends on timely supplies of the essential material resources.

The press frequently carries critical articles on this subject. There are serious shortcomings in the current system of supply. This is what A. Yakovlev, chief of the USSR Ministry of Construction Main Planning-Economic Administration, writes in this connection:

"Today the opinion is often to be heard that it is disadvantageous for the construction workers to have a practicable program. After all, artificially inflated volumes provide for them greater material resources. Under the current system of the allocation of materials per R1 million of construction and installation work this is indeed so. But when we begin to distribute what has been allocated in accordance with this principle to the projects in accordance with the plans and estimates, it transpires that the resources fall approximately 5-10 percent short."

The point is that the so-called 1 million principle still operates in construction even today: material resources--metal, cement, timber and others--are allocated per R1 million of capital investment. Planning according to the "R1 million" appeared many years ago, when the structure of the material resources at the construction projects was very restricted and stable. Currently the list of materials and structures with regard for model and size runs into hundreds and thousands of types. Frequently even the plan and, even more, a standardized plan stipulates the use of various local materials. The replacement of some by others often occurs in the process of construction. The structure of material expenditure differs considerably at different projects. The variations are particularly big in the modernization and retooling of enterprises. Distribution of material resources according to the R1 million principle leads under these conditions to many projects eternally being short of something or other for completion and commissioning.

At the start of the 10th Five-Year Plan 23 construction organizations with an overall volume of construction and installation work of approximately R5 billion had been switched to the new procedure of the comprehensive provision with essential resources in line with requirements as per the planning-estimates documentation. The result: intrashift idling on account of interruptions and the tardiness and incompleteness of the supplies has been reduced 20-25 percent, there has been a reduction in the time taken to construct projects, labor productivity has increased considerably, equipment use has improved, and there has been an increase in earnings and material incentive from the economic stimulation funds. The experiment has shown convincingly that the on-schedule and comprehensive provision of the construction workers with all resources in accordance with the plans is a most important lever of an increase in the efficiency of construction production.

The decree on the economic mechanism instructs the USSR Gosstab to complete in 1981 the transition of the construction projects incorporated in the state plan of capital construction to the comprehensive provision with materials via the territorial material-technical supply authorities for the orders of the construction and installation organizations in accordance with their requirements determined by the plans and estimates. The decree also proposes that, beginning in the 11th Five-Year Plan, the ministries and union republic councils of ministers approve five-year plans of capital construction for enterprises and associations under their jurisdiction which should be balanced with material, labor and financial resources and also with the capacities of the construction and installation organizations.

The decree devotes great attention to perfecting planning-estimating work. The role of planning documentation is undervalued currently. The plans and estimates are revised, corrected and supplemented on several occasions in the course of construction. The cost of the projects is often doubled and tripled. In 1978 USSR Stroybank authorities checked out the estimates at 1,500 construction projects. The result: the overexpenditure thereat amounted to R4.5 billion. This was one-third of the initial cost of the projects. The revision of the documentation was perhaps made necessary by an increase in the capacity of the projects or an improvement in other economic indicators? Nothing of the kind! It is frequently quite the reverse. Last year at almost one-half of the construction projects at which the estimates were revised there was a deterioration in the projects' economic indicators.

To increase the responsibility of those who draw up the documentation the decree on the economic mechanism proposes that the accounts between clients and the planning survey organizations be settled for projects which have been fully completed and accepted by the client. In fulfillment of the decree on the economic mechanism in October 1979 the USSR State Committee for Science and Technology, Gosplan, Gosstroy, State Committee for Labor and Social Problems and the Ministry of Finance approved "Instructions on the Transition of Sectorial Scientific Research, Planning-Design, Production Engineering and Planning-Survey Organizations to the System of Remuneration for Work Which Has Been Fully Completed and Accepted by the Client" (see EKONOMICHESKAYA GAZETA No 46 for 1979).

A considerable amount of work has been done in the country since 1965 to improve the organizational structure of the management of the economy. Approximately 30 master models of management, the basis of which is the concentration and centralization of production and the transition to a two- and three-tier system of management, have been introduced in industry in recent years. The accumulated experience confirms the efficiency of such measures. The CPSU Central Committee and USSR Council of Ministers decree on the economic mechanism proposes that the union construction ministries and union republic councils of ministers switch in 1979-1981 in accordance with the experience of the industrial ministries to the two- and three-tier system of management. It is pointed out here that the industrial construction and installation associations and, in individual cases, the trusts should be the basic financially autonomous tier of construction production. The reorganization of the structure of management of the sector should be undertaken on the basis of the further concentration and centralization of construction production, which, in aggregate with other measures, will contribute to an increase in the efficiency of capital investments.

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